

T H E
BROOKINGS
R E V I E W

Summer 1984

Alice M. Rivlin on Balancing the Budget:

*"There is no painless way
to reduce a large deficit."*

Robert W. Crandall on Auto Import Quotas:

*"The cost per job saved, therefore,
was nearly \$160,000 per year."*

Plus:

Paul C. Light on the New Vice Presidency

*Robert A. Katzmann on the Decline of
Antitrust*

Board of Trustees

Robert V. Roosa
Chairman

Andrew Heiskell
Vice Chairman
Chairman, Executive
Committee

Louis W. Cabot
Vice Chairman

Samuel H. Armacost
J. David Barnes
Vincent M. Barnett, Jr.
Barton M. Biggs
Frank T. Cary
A. W. Clausen
William T. Coleman, Jr.
Lloyd N. Cutler
Thomas Donahue
Charles W. Duncan, Jr.

Robert F. Erburu
Hanna H. Gray
Robert D. Haas
Philip M. Hawley
Roy M. Huffington
B. R. Inman
James T. Lynn
Bruce K. MacLaury
Donald F. McHenry
Robert S. McNamara
Arjay Miller
Donald S. Perkins
J. Woodward Redmond
Charles W. Robinson
James D. Robinson III
Ralph S. Saul
Henry B. Schacht
Roger D. Semerad
Gerard C. Smith
Howard R. Swearer

Morris Tanenbaum
Phyllis A. Wallace
James D. Wolfensohn
Charles J. Zwick

Honorary Trustees

Eugene R. Black
Robert D. Calkins
Edward W. Carter
Bruce B. Dayton
Douglas Dillon
George M. Elsey
Huntington Harris
Roger W. Heyns
John E. Lockwood
William McC. Martin, Jr.
Herbert P. Patterson
H. Chapman Rose
Robert Brookings Smith
Sydney Stein, Jr.

® THE BROOKINGS INSTITUTION is a private nonprofit organization devoted to research, education, and publication on important issues of domestic and foreign policy. Its principal purpose is to bring knowledge to bear on the current and emerging policy problems facing the American people. Brookings functions as an independent analyst and critic, committed to publishing its research findings for the information of the public. In its educational activities, it works to bridge the gap between scholarship and policy-making, bringing new information and analyses to the attention of decision-makers in the public and private sectors. Its activities are carried out through three research programs (Economic Studies, Governmental Studies, Foreign Policy Studies), an Advanced Study Program, a Social Science Computation Center, and a Publications Program.

The Institution was incorporated in 1927 to merge the Institute for Government Research, founded in 1916 as the first private organization devoted to public policy issues at the national level; the Institute of Economics, established in 1922 to study economic problems; and the Robert Brookings Graduate School of Economics and Government, organized in 1924 as a pioneering experiment in training for public service. The consolidated institution was named in honor of Robert Somers Brookings (1850-1932), a St. Louis businessman whose leadership shaped the earlier organizations.

Brookings receives financial support from philanthropic foundations, corporations, and private individuals; it also draws funding for its activities from endowment income, conference fees, sales of publications, and charges for computer services. In addition, the Institution undertakes some unclassified government contract studies, reserving the right to publish its findings.

A Board of Trustees is responsible for general supervision of the Institution, approval of fields of investigation, and safeguarding of the Institution's independence. The President is the chief administrative officer, responsible for formulating and coordinating policies, recommending projects, and selecting the staff. In recent years the senior fellows and research associates have numbered about fifty men and women with varied backgrounds in the academic world, government, or both.

The officers and staff conduct a continual review of the Institution's fields of interest. Discussions with government officials, members of Congress, business leaders, foundation officers, and other scholars help to identify issues for study. Subjects are selected for study on the basis of their significance and timeliness, the adequacy of information and techniques of investigation, the availability of personnel and funds, and the relationship of the projects to the Institution's objectives. Each Brookings study is offered as a competent scholarly treatment of a subject worthy of public consideration; the Institution itself does not take positions on policy issues.

T H E
BROOKINGS
R E V I E W

Summer 1984, Vol. 2, No. 4

- 3 Why and How to Cut the Deficit**
Alice M. Rivlin

- 8 Import Quotas and the Automobile Industry:
The Costs of Protectionism**
Robert W. Crandall

- 17 Making the Most of the New Vice Presidency**
Paul C. Light

- 23 The Attenuation of Antitrust**
Robert A. Katzmann

-
- 28 At Brookings**
A conference on economic issues.

- 30 New Publications**
Robert Z. Lawrence on the competitiveness of American industry in world markets. Thomas O. Enders and Richard P. Mattione on the Latin American debt crisis.

To receive any of the books listed,
please send a check or money order
to:

The Brookings Institution
Department R-1
1775 Massachusetts Avenue, N.W.
Washington, D.C. 20036

Be sure to include in your payment
\$1.50 for postage and handling.

The Brookings Review is published quarterly by the
Brookings Institution, 1775 Massachusetts Avenue,
N.W., Washington, D.C. 20036. Second-class post-
age paid at Washington, D.C. Copyright© 1984 by
The Brookings Institution. All rights reserved.

President: Bruce K. MacLaury

Executive Vice President:

Roger D. Semerad

Public Affairs Director:

Margaret M. Rhoades

The Brookings Review

Editor: Mark Goldberg

Art Directors: Marc Alain Meadows,

Robert Wiser

Secretary: Katharine Beckman

Staff Assistant: Carol Jane Corner

Second-class postage paid at Washington, D.C.
USPS I.D. No. 14209; Publication No. 551640; ISSN
0745-1253

Postmaster: Change-of-address cards (Form 3579)
should be sent to:

The Brookings Institution
1775 Massachusetts Avenue, N.W.
Washington, D.C. 20036

Brookings Books

Economic Choices 1984

Alice M. Rivlin, Editor

\$8.95 paper/\$22.95 cloth

The authors of this important new volume lay out a plan for:

- cutting the federal deficit
- increasing flexibility in domestic spending
- improving the effectiveness of defense spending
- reforming the federal tax system

They also suggest ways to cope with structural change in American industry and to reverse recent increases in poverty.

Contributors: Henry J. Aaron, Barry P. Bosworth, Linda Cohen, Harvey Galper, William W. Kaufmann, Lawrence B. Krause, Robert H. Meyer, Alice M. Rivlin, and Louise B. Russell.

Can America Compete?

Robert Z. Lawrence

\$8.95 paper/\$22.95 cloth

Is America deindustrializing? Is the rest of the world out-competing American industry? In this timely examination of the performance of U.S. manufacturing, Lawrence finds that, contrary to recent fears, international trade competition has not induced a deindustrialization of America. Providing a global and historical perspective, he challenges many widely held assumptions about U.S. industrial performance.

The Politics of International Credit:

Private Finance and Foreign Policy in Germany and Japan

J. Andrew Spindler

\$10.95 paper/\$29.95 cloth

As banks expand their international business dealings, they influence and are influenced by the domestic and foreign policies of the countries where they are headquartered. In this volume, Spindler examines the links between private finance and foreign policy in Germany and Japan and notes implications for American foreign policy and bank-government relations.

Latin America: The Crisis of Debt and Growth

Thomas O. Enders and Richard P. Mattione

\$6.95 paper

In this volume, the first in the Brookings Studies in International Economics series, Enders and Mattione examine the structure of the Latin American economies and the external and internal shocks that those countries experienced from 1979 to 1982. They then analyze various policy options available for confronting the current crisis. They emphasize the likely difficulties in restoring both growth and debt-servicing capabilities during the 1980s and the particular importance of expanded trade between Latin America and the industrialized world to any resolution of Latin America's economic difficulties.

Why and How to Cut the Deficit

Alice M. Rivlin

A DRASTIC CHANGE is needed in U.S. economic policy — and needed quickly. High deficits in the federal budget, and the high interest rates that go with such deficits, are endangering the future growth of the U.S. economy and crippling the ability of American industry and agriculture to compete in world markets. If we continue on our present course, we will be using much of our national saving to finance the government rather than to increase investment, devoting a rapidly rising fraction of our resources to servicing the federal debt, and burdening our children with costly repayments of our debts to foreigners.

We need to summon the political will to reduce the deficit — substantially and soon. This article proposes a program — of immediate actions and longer-term reforms — that would bring the budget into approximate balance by fiscal year 1989. The proposed changes would be painful and unpopular. There is no painless way to reduce a large deficit. But this plan is designed to be evenhanded in its distribution of sacrifice and politically realistic in its scope and pace.

The plan presented here is discussed at greater length in a new book, *Economic Choices 1984*. It was hammered out by a team of Brookings researchers — Henry J. Aaron, Barry P. Bosworth, Linda Cohen, Harvey Galper, William W. Kaufmann, Lawrence B. Krause, Robert Z. Lawrence, Robert H. Meyer, Louise B. Russell, and myself. Over a period of several months, we discussed options and argued about priorities. In the end our plan, like all serious deficit reduction plans, involved compromise. Not all of us are enthusiastic about all parts of it. But we believe it is a feasible and fair proposal to solve a crucial policy problem.

The Outlook: High Deficits and High Interest Rates

For the last several years, monetary and fiscal policies — the two principal instruments by which the federal government affects the overall state of the economy — have worked at cross-purposes. Monetary policy has been predominantly restrictive, while fiscal policy has been mainly stimulative. The results have been high deficits and high interest rates that will continue for the foreseeable future unless policies are changed.

Beginning in 1979, the monetary authorities, concerned about the high inflation of the late 1970s, assiduously restricted growth in the money supply. Interest rates rose to extremely high levels, and the economy went into a deep and lengthy recession from which it did not begin to recover until the end of 1982. Not surprisingly, the interest-rate-sensitive sectors of the econ-

Alice M. Rivlin is the director of the Economic Studies program at Brookings. From 1975 to 1983, she served as the first director of the Congressional Budget Office. She is the editor of *Economic Choices 1984*, which was recently published by Brookings.

“... the longer we procrastinate, the more taxes will have to be raised or spending cut — and that is a permanent cost to current and future generations.”

omy were especially hard hit. Unemployment jumped to over 10 percent, and inflation dropped dramatically.

Meanwhile, fiscal policy was dominated by the large personal and corporate income tax reductions enacted in 1981. The resulting shrinkage in revenue was not matched by cuts in spending; only the mix of spending changed, shifting away from domestic programs and toward defense and interest payments on the rising debt. As a result of both the recession and the enactment of massive tax cuts without corresponding reductions in total spending, the federal deficit soared to \$193 billion, or 6 percent of the gross national product, in fiscal year 1983.

Since the end of 1982, the economy has been experiencing a healthy recovery. But even if the economy continues to grow, the deficit will not decline under current policies. Indeed, although revenues will rise as the economy expands, spending will rise even faster — and so the deficit will actually continue to increase. This prospect of a rising deficit in an improving economy makes the present situation very unusual; since World War II, high deficits have ordinarily been associated with recession, not recovery.

The projected deficits are not attributable to the social security and medicare trust funds. Taken together, these funds are expected to be roughly in balance through 1989 — thanks to recent increases in payroll taxes. The shortfall will be in the rest of the budget. Spending for programs other than medicare and social security will total about 17.2 percent of GNP in 1985 and will rise slightly faster than GNP, with defense and interest payments accounting for most of the increase. Revenues, however, which were sharply reduced by the income tax cuts passed in 1981, will be only about 12.7 percent of GNP in 1985 and will rise slightly slower than GNP. So it is that we will be facing a large and widening gap.

Government borrowing to finance the deficit is contributing to high interest rates and can be expected to exert more upward pressure on them in the near future as private credit demands increase. As workers and factories become more fully employed, the monetary authorities will have to keep a tight rein on credit to avoid a reescalation of inflation. The conflict between a stimulative budget policy and a restrictive monetary policy will intensify, and interest rates are likely to rise further.

Why Policies Must Be Changed

Large deficits are bad news for America. They are enemies of economic growth, impediments to American competitiveness in the international marketplace, and aggravators of the increasingly grave international debt problem.

Effects on Growth

Sustained economic growth should be a high priority of public policy. We should aim for an economy in which average incomes rise gradually over the years so that more is available for the satisfaction of both public and private needs. In a growing economy, public choices are less agonizing and divisive, because an increase in the resources devoted to one objective does not automatically decrease the resources available for other purposes. Growth also cushions the impact of economic change, making it easier for workers in declining industries to find new jobs and for new firms to spring up to replace those that are in decline. Moreover, the experience of the postwar period indicates that overall economic growth is a powerful force for the reduction of poverty. Programs of education and training for low-income people have little chance of success if there are few jobs available. Even if some proportion of those in poverty cannot be expected to participate in income growth, the provision of resources for their support is easier in a growing economy.

Budget deficits in the anticipated range will absorb about two-thirds of the net private savings expected to be available; this will leave less for the capital formation necessary for continued economic growth. Examination of the past yields little hope that private saving will rise enough to offset federal dissaving of such unprecedented magnitudes. Far more likely is fierce competition for limited savings, resulting in higher interest rates.

High deficits and high interest rates do not necessarily mean immediate disaster for the economy. The deficits will continue to stimulate the economy generally, while the high interest rates will tend to slow particular types of spending, especially housing and business investment. High deficits and high interest rates affect the *mix* of total spending — with more resources going to consumption and less to housing and investment than would be the case if we had lower deficits and lower interest rates. A low level of investment in plant and equipment is likely to reduce productivity increases and hamper economic growth in the longer run. Penalizing investment is borrowing from the future to increase consumption now.

Effects on American Competitiveness

High interest rates have already had a devastating impact on the ability of U.S. industry to compete in world markets. These rates have attracted a large inflow of capital from abroad. The foreign capital has helped to finance the federal deficit as well as private investment, but it has added to the demand for dollars on foreign exchange markets. The exchange value of the dollar has risen sharply in the last several years, making U.S. exports more expensive for foreigners and foreign goods and services cheaper for Americans. As a result, the United States has been running a huge deficit in its balance of trade, and output and employment in industries facing foreign competition have suffered. Borrowing from abroad is also borrowing from the future to fund current consumption, since the debts incurred will have to be repaid, with interest, out of future national production.

Effects on International Debt

High interest rates in the United States lead to high interest rates around the world and greatly aggravate the precarious international debt situation. As interest rates rise, third world countries find it increasingly difficult to make the interest payments on their debts to U.S. banks. Severe balance-of-payments difficulties have led the largest of the borrowing countries to adopt restrictive domestic economic policies in efforts to reduce import requirements. These problems of debt financing are especially serious in Latin America, the Philippines, and Africa.

The Future is Now

We cannot continue putting off action on the budget deficit. The time for temporizing is past; delay in grappling with the deficit not only augments the problems described above, but it increases the costs of taking the steps that we will need to take sooner or later.

At high interest rates, the rising debt adds rapidly to the interest costs of the federal government. Each year that the United States postpones action on its deficit adds \$200 billion to the debt and increases required annual interest payments by about \$20 billion. Thus, the longer we procrastinate, the more taxes will have to be raised or spending cut — and that is a permanent cost to current and future generations.

On the other hand, prompt action sharply reduces the magnitude of the changes required to bring the budget into balance. For example, at current interest rates of 10 percent, because of the compound effect of interest financing a \$1 billion expenditure cut would reduce the annual budget deficit after five years by a total of \$1.7 billion — a figure that reflects an additional savings of \$0.7 billion in interest payments.

The Need for Political Compromise

The economy would benefit greatly from major shifts in monetary and fiscal policies to reduce deficits and interest rates. Those changes will not be easy to bring about, however. While concern about the deficits is widely



Suggested Pruning

Lise Gladstone

expressed, specific proposals to raise taxes or cut domestic or defense programs are likely to encounter far more opposition than support. It will take political courage, ingenuity, and vision to fashion a deficit reduction plan that can garner broad support even though specific elements of it would be painful.

Not only will compromise within Congress and between it and the president be required to effect a successful switch of policies, but also an unusual degree of coordination between monetary and fiscal decision-makers will be essential. If the switch is to be made without slowing the economy unduly as the deficit falls, monetary authorities will have to permit substantial reductions in interest rates and the exchange value of the dollar.

The need to reduce the federal deficit is pressing, and much is riding on the decisions that are made, or fail to be made, in the short term. But we should not lose sight of the opportunities that this need creates. We can use this juncture to reexamine government priorities and the effectiveness of specific programs. And we can seize the chance to reform the federal tax system as we raise more revenue through it; indeed, tax increases without reform would magnify the inequities and inefficiencies of the present system.

A Compromise Plan

The plan offered here represents an attempt by a group of economists to construct a feasible, fair blueprint for bringing the federal budget close to balance by 1989. It reflects a recognition that the deficits are so large that we must proceed on all fronts in doing battle with them; thus, it incorporates proposals for reduction in the growth of both domestic and defense spending and for increases in revenue. The plan is intended to be realistic about timing as well. Action to reduce the deficit must be taken soon; we cannot allow the pursuit of fundamental reforms to block short-term steps in the right direction. Therefore, the package involves a set of simple, evenhanded measures to be taken quickly — and to be followed by more thorough efforts at reform.

Our objective was to design a plan that would bring the federal budget into approximate balance by 1989. Hence the task was to agree on a set of legislative proposals to cut spending or raise revenues that, together with the attendant reductions in federal interest costs, would save about \$300 billion in 1989. The plan we developed would do just that — by reducing domestic expenditures \$46 billion in that year, lopping another \$46 billion off the CBO baseline projection for defense spending, increasing tax revenues \$108 billion, and yielding \$88 billion of interest savings.

The individual pieces of the plan would not necessarily be endorsed by every member of the research team. Some of the elements are desirable in themselves; others can be defended only as part of a compromise plan to cut the deficit. Indeed, virtually all of them would face strong political opposition from some quarter or another. But we believe that cutting the deficit is so important that normal political differences must be submerged in a common effort to achieve a goal that will benefit the economy and the country.

Reductions in Domestic Spending

Spending on domestic programs rose from less than 8 percent of GNP in fiscal 1962 to about 15 percent in 1980 as the federal government took on new responsibilities and expanded existing programs. Since 1980 this growth has slowed because of substantial cuts made in many programs. By the end of this decade, as the cuts continue to take effect and the economy recovers, domestic spending is expected to fall to about 13 percent of GNP. Nevertheless, domestic spending must be reviewed again if the budget is to be brought into balance by 1989.

We propose a two-stage program to restrain domestic spending. The first stage is a one-year freeze in 1985, during which cost-of-living increases in benefits paid to individuals would be omitted unless prices rose more than 5 percent; appropriations for most other programs would be held at 1984 levels. Programs for low-income people would be exempted from the freeze. This modified freeze is a relatively simple and evenhanded way to reduce spending quickly, while allowing time for debate over the longer-term restructuring of domestic programs. The proposed freeze would save about \$15 billion in 1985 if the CBO's most recent projection of the inflation rate (5.2 percent for fiscal 1985) is accurate.

Since the one-year freeze would lower the base from which future increases are computed, saving would continue into the future — at a rate of more than \$20 billion annually in 1986–89.

The second stage would require more fundamental changes in domestic spending programs. The Brookings team identified four major areas of domestic spending in which reforms would produce substantial savings:

—The automatic growth in social security spending should be reduced somewhat in order to give the political system more flexibility in its allocation of resources between social security benefit increases and other federal activities. Reductions should be achieved through changes in initial benefits, not in the cost-of-living adjustment.

—The new system of prospective rates for paying hospitals under medicare should be used to restrain the growth in costs to inflation plus 1 percent. Although this policy should be adequate for the next few years, further changes may be required in benefits or revenues if projections continue to predict large deficits in the medicare trust fund by the mid-1990s.

—Both the civil service and military retirement systems should be changed to bring them more in line with private-sector pension plans. For future retirees, initial benefits should be reduced somewhat and full benefits should be made available only to those sixty-two years of age or older. Benefits for current and future retirees should be only partially indexed for inflation.

—Agricultural programs should be geared toward the stabilization of prices around long-term market-clearing levels. Deficiency payments should be ended for all crops.

Savings could be achieved in other programs by imposing user charges for services that the federal government now provides without charge or below cost (for example, maintenance of the canal system at little cost to commercial shippers); by reducing subsidies for some activities; or by eliminating programs that have outlived their rationales.

Reductions in Defense Spending

Because defense outlays account for about 30 percent of all federal spending and are rising faster than other spending, they are an obvious source of possible deficit reductions. Such reductions, however, must not endanger national security. The nation needs and can afford a strong defense, but the rapid defense buildup advocated by the Reagan administration is both unjustified and unwise. A more moderate and balanced growth could meet the administration's defense objectives more efficiently. Indeed, forces appropriate to an even higher level of perceived threat and a need for more immediate readiness could be purchased for less money than the administration is proposing to spend.

Simple percentage reductions in appropriations will not ensure that the remaining dollars are spent wisely and may in fact merely exacerbate some of the imbalances in the Reagan defense plan by preventing neglected categories of expenditure from receiving their

due. What would make more sense is a program of targeted reductions, with three major emphases. First, the expensive duplication that results from an undisciplined planning process and fierce interservice rivalry should be reduced. Several big-ticket weapons systems — including the MX missile, the B1B bomber, the Army's AH-64 attack helicopter, and the Navy's F-15 fighter aircraft — largely duplicate the capabilities of other systems. Trimming such redundancy could save about \$23 billion in fiscal year 1985 and more in subsequent years. Second, substantial savings could be achieved by replacing the current costly rush to modernize with a more orderly and sustainable long-term investment strategy. Third, even larger spending cuts could be made by abandoning some objectives for which there is little convincing rationale. For example, there is no need to engage in rapid modernization of North American defenses against bombers when the main threat to the United States is from Soviet ballistic missiles. Similarly, the costly addition of three carrier battle groups to the twelve already available appears to be without serious military justification. In sum, the level of national security sought by the Reagan administration is achievable at substantially lower spending levels.

Increases in Tax Revenues

To bring the budget into approximate balance by 1989 would require substantial additions to revenues; if the spending cuts contemplated by the Brookings package were to be effected, a revenue increase of about \$100 billion would be required to close the remaining budgetary gap. Thorough reform of the current tax system is clearly indicated. The corporation and individual income taxes are riddled with provisions that treat taxpayers inequitably and needlessly reduce economic efficiency. Raising revenue simply by raising tax rates would aggravate these problems.

Various approaches to reform are possible. Some would broaden the base of the individual income tax by ending most exclusions and deductions in order to obtain additional revenue without increasing tax rates. Others would shift part of the revenue structure from income taxation to the taxation of consumption through a value-added tax or national sales tax. The Brookings proposal combines both ideas: broadening the base and taxing spending rather than income. Both the individual income tax and the estate and gift tax would be replaced by an individual cash flow tax on income from all sources minus net saving. With this base, reduced rates of 5 to 32 percent would impose burdens on each economic class similar to those entailed by the current income and estate taxes. Somewhat higher rates — ranging up to 38 percent — would be needed to achieve a balanced budget in 1989. The corporation income tax would be replaced by a cash flow tax on corporate receipts minus current expenses (including investment). This new tax system would not be free of problems — no perfect tax exists — but it would be fairer, simpler, and more favorable to growth than the present system, while not shifting tax burdens among economic classes.

“. . . the package involves a set of simple, evenhanded measures to be taken quickly — and to be followed by more thorough efforts at reform.”

Such a major change in tax laws could not be put in place quickly enough to produce the added revenue needed to bring down the deficit in the next two or three years. Some immediate steps to broaden the tax base, coupled with a temporary income tax surcharge, would help to reduce the deficit during this interim period. A variety of short-term base-broadening measures are possible — from repealing the 15 percent interest exclusion to eliminating the availability of tax-exempt bonds for private purposes.

A cash flow tax on individuals and corporations would go farther than commonly proposed alternatives to the current structure toward achieving simultaneously all the goals of a desirable tax system. It would impose tax burdens based on each person's lifetime command over resources. It would terminate the current capricious variations in business tax rates that distort investment decisions. It would reduce the potential for tax avoidance through tax shelters. It would ease compliance for those who face the greatest difficulty in determining their tax liabilities under current law. Finally, it would provide a consistent, logical framework for assessing tax burdens.

The plan set forth here — and, in greater detail, in *Economic Choices 1984* — is offered in the hope that it will stimulate both debate and action. It is, of course, not the only possible path to a balanced budget. What is of paramount importance is that we choose a plan to reduce the deficit and get on with the job. If we act quickly to bring down the deficit and interest rates, there is a good chance that the next few years will see healthy, balanced growth in the U.S. economy and improvement in America's ability to compete in world markets.

Import Quotas and the Automobile Industry: The Costs of Protectionism

Robert W. Crandall

THE AMERICAN automobile industry had a very good year in 1983: New car sales jumped up by nearly one million units, and, as has been well-publicized, after-tax profits soared to a record \$6.2 billion. But the industry is not quite as robust as these statistics suggest. U.S. automobile companies have been playing with a home-field advantage — quotas on Japanese imports, negotiated in 1981 and now extended through 1985.

This article explores the effects of the quotas — on automobile prices and on the profits of domestic manufacturers. The essay begins, however, by tracing the recent history of the automobile industry; it is important, in assessing the impacts of the quotas, to understand why they were sought in the first place.

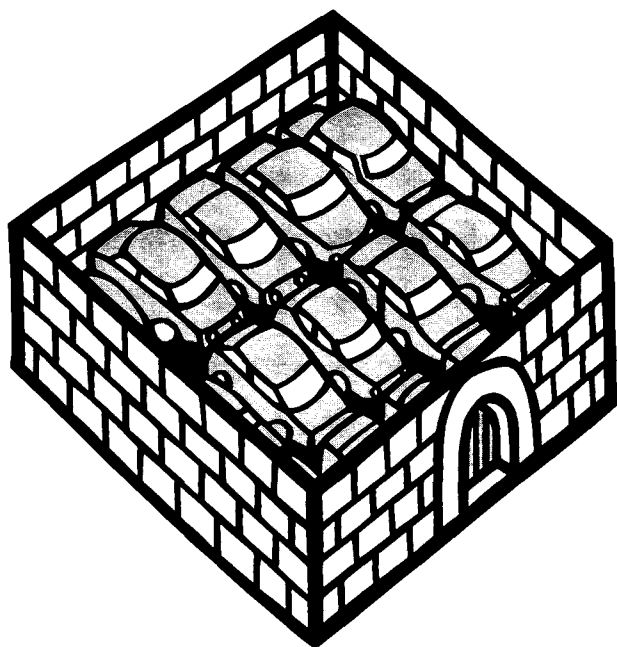
The Past as Prologue

Sales. Before the 1958 recession, the U.S. automobile industry appeared to be a stable, invincible oligopoly. From time to time, ardent trustbusters would suggest that the government should initiate antitrust proceedings against General Motors in order to increase competition in the industry. It seemed highly unlikely that foreign producers would ever be able to capture a substantial share of the U.S. market. Although Volkswagen enjoyed some success in the late 1950s, import sales then tapered off — dropping below five percent of total sales by 1962, as Table 1 indicates.

That decline proved to be short-lived; in the next eight years, the proportion of U.S. sales accounted for by imports tripled, settling at about 15 percent for the years 1970–74. Ford and General Motors responded to the stepped-up competition from small imported cars by launching their Pinto and Vega model lines, but neither of these proved particularly successful. When the second oil shock occurred in 1978–79, fuel-efficient foreign cars became more popular than ever; in 1980, 28 percent of the new cars registered were imports.

While the sales of imports have increased since 1965, growth in the demand for new cars has decreased. From 1965 through 1970, sales were essentially flat, deviating little from an annual rate of nine million cars; this leveling-off came after more than a decade of substantial sales growth. Sales were at a higher plateau between 1971 and 1979, averaging about ten million cars per year, but most of this increase was absorbed by imports, particularly those from Japan. As a result, even during the relatively prosperous period of 1976–79, the demand for domestic cars was about the same as it had been in 1965–66. That demand then plummeted during the first four

*Robert W. Crandall is a senior fellow in the Economic Studies program at Brookings. Before joining Brookings, he had been deputy director of the Council on Wage and Price Stability. His most recent book is *Controlling Industrial Pollution*. He is currently working with several colleagues on a study of the impact of regulation on the automobile industry.*



years of the 1980s, as U.S. manufacturers managed to sell only about 6 million new cars per annum — far below their totals in the recession-plagued years of 1970 and 1975.

As Table 2 shows, the profit rates of U.S. automobile manufacturers fluctuated wildly during the 1970s, ranging between 6.1 percent and 18.7 percent on equity. Then, in 1980, the bottom fell out; the firms lost \$4 billion on sales of 6.3 million cars. This was the worst year in the industry's history; its profit rate of -9.3 percent was 23.2 percent below the average for all manufacturing. When sales had declined sharply in 1970 and again in 1975, U.S. manufacturers had managed to earn positive rates of return. In 1961, with sales of only 5.2 million cars, the companies had earned 11 percent on equity. Clearly, the industry's difficulties in 1980 — and in the two years that followed — reflected more than just cyclical swings in the economy. What had gone wrong?

Regulation. One source of vexation has been the federal government, which has saddled the industry with a succession of new regulatory requirements. Safety regulation began in 1966, federal emissions controls in 1968, and fuel-economy regulation in 1978. The costs of safety and emissions regulation have been substantial; as Table 3 shows, they reached nearly \$2000 per car by the early 1980s.

Prior to 1972, emissions control costs were negligible, and safety equipment costs were less than \$200 per car. Both categories of costs then rose sharply, however. Automobile manufacturers struggled with the technology of emissions control while trying to convince the government that its timetable for control was much too stringent. For at least two years and perhaps longer, the companies used relatively inefficient fixes to constrain emissions. The results were poor performance, severely depressed fuel economy, and widespread customer dissatisfaction.

At about the same time, the Department of Transportation was imposing two major new safety regulations on

the industry — requirements for seat belt interlocks and energy-absorbing bumpers. The interlock requirement was quickly repealed by Congress in response to bitter complaints from new-car buyers, but manufacturers had already spent time and money on the design and

**Table 1. U.S. New Car Registrations
1960–1983 (millions)**

Year	Domestic Cars	Imports	Total	Import Share
1960	6.1	0.5	6.6	7.6%
61	5.2	0.4	5.6	6.5
62	6.6	0.3	6.9	4.9
63	7.2	0.4	7.6	5.1
64	7.6	0.5	8.1	6.0
65	8.7	0.6	9.3	6.1
66	8.3	0.7	9.0	7.3
67	7.6	0.8	8.4	9.3
68	8.4	1.0	9.4	10.5
69	8.3	1.1	9.4	11.2
70	7.2	1.2	8.4	14.7
71	8.5	1.3	9.8	15.1
72	9.0	1.5	10.5	14.5
73	9.7	1.7	11.4	15.2
74	7.3	1.4	8.7	15.7
75	6.8	1.5	8.3	18.2
76	8.4	1.4	9.8	14.8
77	8.8	2.0	10.8	18.3
78	9.0	1.9	10.9	17.8
79	8.0	2.4	10.4	22.7
80	6.3	2.5	8.8	28.2
81	6.0	2.4	8.4	28.8
82	5.5	2.3	7.8	29.3
83	6.4	2.5	8.9	27.5

Source: *Automotive News*, Market Data Book Issue, April 27, 1983.

**Table 2. After-Tax Rate of Return on Equity:
U.S. Motor Vehicle Companies 1960 – 1983**

Year	Motor Vehicles	All Manufacturing
60	13.5	9.2
61	11.4	8.8
62	16.2	9.8
63	16.7	10.2
64	16.9	11.6
65	19.5	13.0
66	15.9	13.4
67	11.7	11.7
68	15.1	12.1
69	12.6	11.5
70	6.1	9.3
71	13.0	9.7
72	14.6	10.6
73	15.3	13.0
74	7.0	14.9
75	6.2	11.6
76	17.0	14.0
77	18.7	14.2
78	17.0	15.0
79	10.9	16.5
80	-9.3	13.9
81	-0.7	13.7
82	0.9	9.2
83	16.7	10.1

Source: Federal Trade Commission.

**Table 3. The Cost per Automobile of Federal
Safety and Emissions Regulation, 1966–81**
(current \$/car)

Year	Equipment Costs			Total Costs (Including Maintenance & Fuel Economy Penalty)
	Safety	Emissions	Total	
1966	40	0	40	40
1967	73	0	73	73
1968	115	14	129	129
1969	129	15	144	144
1970	157	24	181	181
1971	166	25	191	191
1972	171	25	196	366
1973	258	44	302	790
1974	380	49	429	970
1975	358	119	477	664
1976	373	126	499	696
1977	384	123	507	850
1978	393	133	526	895
1979	421	148	569	980
1980	467	222	689	1373
1981	494	600	1094	1894

Source: Crandall *et al.*, forthcoming study of automobile regulation.

fabrication of interlock systems. The bumper requirement was surely a masterstroke of bad timing; it added substantially to the weight of cars — and detracted significantly from their fuel economy — just as the Arab oil embargo was driving gasoline prices up.

The second big regulatory surge came in 1980–81. The industry managed to stave off a new requirement for passive occupant restraints, but only at the last minute. Product planners had to be prepared to install passive seat belts or air bags in some models in 1982 before the Department of Transportation relieved them of this requirement in mid-1981. In addition, emissions standards were tightened substantially in 1980–81, necessitating major changes in ignition systems and control devices.

Unfortunately, these regulatory initiatives came right after the second oil shock and an attendant surge in the sale of Japanese imports. At the same time that U.S. manufacturers were struggling to redesign and downsize their cars as quickly as possible, they had to introduce new emissions-control technologies and to develop passive restraint systems. The Japanese car companies appear to have adjusted to the regulatory requirements more readily than their American rivals, perhaps because they did not need to downsize their product lines simultaneously.

The safety regulations and the pre-1980 emissions controls appear to have been effective, but the gains they produced have not been without their costs. For consumers, safety and emissions standards have increased the prices of new cars by at least \$1000 and reduced both fuel economy and performance. As a result, they have reduced the demand for new cars. Had emissions controls been kept at 1979 levels and the energy-absorbing bumper left a matter of market choice, new car sales would have been higher and regulatory headaches fewer for an increasingly besieged Detroit.

More recently, the Corporate Average Fuel Economy (CAFE) standards, legislated by Congress in 1975 and implemented by the Department of Transportation, have placed U.S. companies in the difficult position of trying to meet the resurgent demand for larger cars while still making progress towards the 1985 goal of 27.5 miles per gallon for their fleets.

Product Quality. An unfortunate consequence of the turbulence of the 1970s was a sharp decline in the product quality of U.S. automobiles relative to that of Japanese imports. This decline was reflected not only in the “fit and finish” of cars — that is, the fit of body panels and the general quality of exterior finish — but also in the frequency of repairs. In 1970, as Table 4 shows, the repair records of U.S. cars were only marginally worse than the records of Japanese imports in the first few years of service. These differences may have narrowed or disappeared in later years of service. By 1976, however, Japanese cars had much better repair records than their American counterparts — and this gap has persisted and even widened in the years since then. It should be noted that the continuing declines in quality reported in Table 4 are not confined to the new downsized front-wheel drive models, but have occurred across the entire model lines of the U.S. companies.

Production Costs. The quality advantage of Japanese cars was no doubt one factor in the shift of American buyers toward imports; another factor was the loss of U.S. competitiveness in the production of smaller cars. Since 1980, there have been numerous attempts to quantify the differences between U.S. and Japanese production costs for subcompact cars. Estimates of the Japanese advantage range from \$1300 to \$2500 per car, a substantial fraction of the average delivered price of these models. Those who have studied this question agree that the main sources of the cost disparity are differences in wage rates, labor productivity, management practices, and inventory costs.

Part of the U.S. industry's problem derives from its own collective bargaining; it has granted large wage increases to its unionized workers rather than risk strikes or labor unrest. As indicated in Table 5, the result has been hourly employment costs that are about 60 percent above the average for all U.S. manufacturing firms. In Japan, by contrast, automobile companies pay their workers only 25 percent more per hour than what the average Japanese industrial worker receives. Moreover, the differences between the hourly employment costs of U.S. and Japanese car manufacturers has been widening — from about \$6 in the mid-1970s to about \$11 now — even though productivity growth in the Japanese firms has been more rapid.

The surge in demand for Japanese imports was followed by a sharp upturn in the value of the dollar. From the beginning of 1980 through the third quarter of 1982, the dollar appreciated against the yen by more than 30 percent. Even today, the value of the dollar in terms of the yen is 20 percent higher than it was in January, 1980. This depreciation of the yen has added considerably to the Japanese cost advantage over U.S. automobile producers.

Table 4. Average Consumer Reports Quality Ratings for U.S. and Japanese Cars

Year	Japanese Imports	G.M.	Ford	Chrysler
1970	2.33	2.81	3.18	3.85
1976	1.13	3.03	2.80	3.91
1981	1.05	4.33	3.17	4.50

Note: 1 = Much Better than Average
2 = Better than Average
3 = Average
4 = Worse than Average
5 = Much Worse than Average

Source: *Consumer Reports*, April 1972, April 1978, and April 1983.

"Estimates of the Japanese [cost] advantage range from \$1300 to \$2500 per car, a substantial fraction of the average delivered price of these models."

Paying for Protection: The Import of Quotas

In 1980, the U.S. industry began to appeal for temporary protection from Japanese imports. In July, 1980, the International Trade Commission initiated an investigation under Section 201 of the Trade Act of 1974. This proceeding did not result in an ITC decision to recommend trade relief measures. In 1981, however, President Reagan announced that agreement had been reached with Japan on a voluntary export restraint (VER) that would limit Japanese automobile exports to the United States, beginning that April, to 1.68 million cars per year.

Table 5. Total Hourly Compensation in the Motor Vehicle Industry and All Manufacturing — U.S. and Japan (\$/hour)

Year	U.S.		Japan	
	Motor Vehicles	All Manufacturing	Motor Vehicles	All Manufacturing
1975	9.44	6.35	3.56	3.05
1976	10.27	6.93	4.02	3.30
1977	11.45	7.59	4.82	4.03
1978	12.67	8.30	6.85	5.54
1979	13.68	9.07	6.90	5.49
1980	16.29	9.89	6.89	5.61
1981	17.28	10.95	7.65	6.18
1982	18.66	11.68	7.18	5.70
1983	19.02	12.31	7.91	6.24

Source: Bureau of Labor Statistics

Table 6. U.S. Motor Vehicle & Equipment Producers' Gross Investment Expenditures 1970-83 (\$/million)

Year	Current \$	1972 \$*
1970	3050	3341
1971	2420	2516
1972	3000	3000
1973	3830	3630
1974	4300	3726
1975	3350	2534
1976	3620	2612
1977	5820	3978
1978	7215	4590
1979	8305	4862
1980	9060	4866
1981	10078	4992
1982	7920	3777
1983	7233	3496

*Using Bureau of Economic Analysis Implicit Price Deflator for Nonresidential Plant & Equipment.
Source: U.S. Department of Commerce

The Reagan decision did not arouse much opposition since it followed a year in which U.S. automobile manufacturers lost approximately \$4 billion. Employment in the industry had fallen by more than 20 percent; approximately a third of that decline was due to a sharp rise in import sales. Moreover, the Chrysler Corporation had recently been saved from bankruptcy by federal loan guarantees, and Chrysler workers had taken substantial pay cuts.

The voluntary export restraint negotiated with Japan was renewed in 1983 for the 1984-85 period, but with a slightly higher limit of 1.85 million cars per year. By 1983, however, the industry had returned to at least the appearance of financial health, generating more than \$6 billion in after-tax profits. The price of Japanese cars surged, U.S. manufacturers paid substantial bonuses to their executives, and commentators began to question the wisdom of continuing the restraint agreement with Japan.

The Rationale. The Reagan administration obtained temporary quotas on Japanese imports in order to buy the U.S. automobile industry and its workers time to adjust to the new rigors of world competition. It anticipated that during this adjustment period, car companies might undertake the substantial tooling required for the manufacture of new models, launch major investment programs designed to lower production costs in existing plants, establish new plant configurations, reduce inventory costs, and seek changes in union work rules and wage agreements. After a few years, the industry would be able to compete effectively once again — unless its cost disadvantages were rooted in fundamental economic forces beyond its control, such as exchange rates, raw material costs, or a shift of comparative advantage to lower-wage countries.

There was and is another possible outcome: Trade protection might simply provide an opportunity for increases in automobile prices, wages, and company profits. A reduction in the availability of imports inevitably increases the demand for U.S. automobiles, opening the door for price hikes. The resulting increases in profits could provide an enticing target for union negotiators in the next round of bargaining. With foreign competition temporarily (or permanently) reduced, workers have less incentive to moderate their wage demands or to allow fundamental changes in work rules.

Which of these outcomes seems more likely? Past experience with trade restrictions hardly suggests that they offer a guarantee of industrial renaissance. The steel industry has enjoyed some form of protection over most of the past fifteen years, but it has not recovered. Trade protection for manufacturers of television receivers or shoes has hardly returned the United States to a dominant position in these industries. If past experience is any guide, one should not expect the Japanese VERs to be a miracle cure for the U.S. automobile industry.

The Industry's Adjustment. In fact, U.S. companies had begun to adjust to the new world of high gasoline prices and international competition some time before the VERs took effect. There is every reason to believe that the industry was well on its way to renewed competitiveness. Manufacturers had focused more on small cars since the two oil shocks, and by 1981 had reduced the average weight of a domestic car 30 percent from its 1972-73 high. Similarly, by 1980 the industry was selling 40 percent of its cars with four-cylinder engines, up sharply from 9 percent in 1972-73. Fuel economy was up by more than 25 percent over what it had been in 1972-73 for cars of the same weight and horsepower; actual fuel economy increased much more than that, as buyers shifted to smaller cars.

The investment expenditures of the automobile companies are further evidence of their pre-1981 adjustment efforts. Between 1975-76 and 1979-80, as Table 6 shows, real investment outlays increased by more than 88 percent. More focused census data show that investment in plant, equipment, and special tooling rose more than 87 percent over the same period. In short, the industry had invested enormous sums in new models before the establishment of quotas. Since 1981, real investment expenditures by the automobile industry have fallen by 30 percent. Buyers have begun once again to demand larger cars; eight-cylinder cars accounted for 31 percent of 1983 sales, up from 24 percent in 1981. New or modified models abound: Ford has introduced a new series of front-wheel drive cars and a modified version of its older rear-wheel drive Thunderbird; Chrysler has added a new sports car and a series of vans to its product line; and General Motors has downsized its larger cars. But the major changes were in place before the quotas were; by March, 1981, Ford's Escort, Chrysler's Aries-Reliant, and General Motors' X-, J-, and A-body cars were either on the market or nearly ready for introduction. It is difficult to trace any differences in product offerings to the quotas.

Nor has productivity soared as a result of the quotas.

Between 1977 and 1982, productivity growth in the motor vehicle industry was 0.4 percent, as compared with 0.2 percent in the nonfarm business sector. From 1980 to 1982, the industry outperformed the rest of the nonfarm business economy, but, given the depth of the 1982 recession, it is difficult to draw any firm conclusions from these data. In 1982, the UAW agreed with Ford and GM to forego some wage increases in order to stem the flow of red ink from these companies' domestic financial statements. These agreements followed similar, but larger concessions granted to Chrysler in previous years. In addition, the industry has attempted to increase productivity by investing in labor-saving equipment and improving worker morale. At this juncture, there is insufficient evidence to judge the success of these attempts. Indeed, General Motors' decision to produce subcompacts jointly with Toyota in California appears to be an attempt to break out from the restrictive work rules with which it is saddled in other plants. When 1983 data become available, we may be able to say a little more about the impact of these efforts.

Effects on Automobile Prices. There is no doubt but that by creating an artificial scarcity of Japanese imports, the voluntary restraints have increased the prices charged for these cars; the only question is by how much. A 1983 Wharton Econometrics study estimated that as a result of the quotas, the prices of Japanese imports jumped up an average of \$920 to \$960 per car in 1981-82 alone. With the surge in demand that took place in 1983, this price effect has surely increased substantially — which means that our assistance for the U.S. industry has benefited Japanese producers and

“In fact, U.S. companies had begun to adjust to the new world of high gasoline prices and international competition some time before the VERs took effect.”

their dealers by at least \$2 billion per year in price enhancement. From the standpoint of American taxpayers, a tariff clearly would have been a better policy choice than the voluntary restraints.

The effect of the restraints on the prices of U.S. cars is more open to dispute. It is not easy to estimate this effect because the mix of automobiles is constantly changing. Indeed, some industry officials believe that any recent price increases above the cost of producing cars have been due to mix changes, not imports. But if

Table 7. Three Estimates of the Effect of Quotas Upon U.S. Car Prices

1. Average Price of New Domestic Cars Sold = $f(\text{Labor Cost, Capital Cost, Regulatory Cost, Price of Steel, 1972-74 Price Controls, Vehicle Sales})$
Period of Estimation: 1961-1980. Standard Error: \$56.

Excess of Actual Prices over Predicted Prices:

1981	\$237
1982	\$236
1983	\$829

2. Hedonic Model: Price of a New Domestic Car = $f(\text{Weight, Ride, Handling, Acceleration, Size Class, Gasoline Cost, Dummy Variables for Various Years})$
Period of Estimation: 1970-83 models (172 cars).

Increase in estimated value during quota years for small cars:

Year	Total (\$/car)	Additional Regulatory Costs (\$/car)	Net Value (\$/car)
1981-83	826	454	372

3. Annual Increase in Consumer Price Index:

Period	(1) Total CPI	(2) New-Car CPI	(2)/(1) Ratio
1960-70	2.7%	0.3%	0.11
1970-80	7.5	5.1	0.68
March 1981-Dec. 1983	4.9	4.5	0.92
March 1981-Dec. 1983 (at 1970s' ratio)	4.9	3.3	0.68

Difference in behavior of new-car CPI relative to total CPI in March 1981-December 1983 compared with difference in 1970s:

$$4.5\% - 3.3\% = 1.2\% \text{ per year.}$$

Effect on new domestic car prices of 1.2% greater increase per year:

Actual 1983 Average Price	Predicted 1983 Average Price	Difference
\$10,484	\$10,116	\$368



Robert Wisner

the VERs reduce the potential supply of new Japanese cars in the United States (and they surely do), they must increase the demand for American automobiles. Historically, the average price of automobiles in the United States has varied directly with the strength of demand; therefore, one would expect the VERs to increase the prices of domestic cars.

Assume for a moment that the VERs have simply increased the U.S. industry's market share by 5 to 8 percent, without increasing prices; given the trend in import sales between 1978 and 1981, this range probably represents the maximum effect of the quotas on market shares. In 1983, a 5 to 8 percent shift would have meant the purchase of an additional 445,000 to 712,000 domestic cars, assuming no effect on total car sales. My current research suggests that the marginal profit on these cars, before taxes, would have been about \$2000

“... our assistance for the U.S. industry has benefited Japanese producers and their dealers by at least \$2 billion per year in price enhancement.”

per car — for a total of \$0.89 to \$1.42 billion, less than the gain realized by Japanese companies and their dealers. (Of course, if the VERs have increased domestic car prices, then the additional profits made by U.S. manufacturers would be substantially higher.)

I used several techniques to estimate the impact of the quotas on domestic car prices, and while I would not claim that the results of any one of the tests are definitive, the fact that the outcomes are so similar does suggest that the price effect of the quotas is in the range indicated.

One way to gauge that effect is to relate U.S. car

Table 8. Profits Before Taxes,* 1970–83

Year	Before-tax Profits (Billions of \$)	Before-tax Profits (Billions of 1972 \$)	Before-tax Profits per Vehicle** (1972 \$)
1970	1.2	1.3	160
1971	5.0	5.2	490
1972	5.9	5.9	520
1973	5.7	5.3	423
1974	0.1	0.0	472
1975	1.9	1.5	165
1976	7.2	5.3	461
1977	9.4	6.5	513
1978	8.9	5.7	443
1979	4.7	2.7	235
1980	-3.8	-1.9	-239
1981	-0.6	-0.3	-37
1982	0.9	0.2	27
1983	7.7	3.2	353

*With inventory valuation adjustment.

**Vehicles include all cars, trucks, and buses.

Sources: Bureau of Economic Analysis, Department of Commerce, *Survey of Current Business*, annual issues; Motor Vehicle Manufacturers Association, *Motor Vehicle Facts and Figures*, annual issues.

prices to costs and demand over a substantial period of time and then to use the resulting equation to predict prices under the VERs in 1981–83. I developed a pricing model for the period 1961–80, incorporating labor costs, capital costs, regulatory requirements, the price of steel, the strength of demand, and dummy variables for years of price controls. As indicated in part 1 of Table 7, the model tracks the annual average prices of new cars in this 20-year period with an average error of only about \$56. However, the equation underestimates prices for 1983 by more than \$800 per car and for 1981–83 by a yearly average of \$430. Since the model was built using the Commerce Department's series on actual transactions prices, it reflects discounts from list prices. It does not, however, standardize for changes in the mix between small and large cars or in the mix of options. These changes occurred in the 1960s and 1970s, and the equation tracked prices very well for those two decades. The only major difference between the 1970s and, say, 1983 is the presence of an import restraint; it seems reasonable to infer that the VER must account for a substantial share of the excess of actual prices over predictions.

A second method for analyzing shifts in automobile prices is the use of a so-called hedonic model that reflects the qualitative attributes of each car. I gathered data on 176 domestic models tested by *Consumer Reports* from 1970 through 1983; complete data were available for 172 of these cars. The following factors were included in the model: weight, acceleration, the estimated quality of ride, the estimated handling capability, the cost per mile of gasoline consumed, and the size-class of the car (subcompact, compact, intermediate, full size, or luxury). When specific dummy variables are used for each year, the model estimates that the real list price of small cars increased by 12 percent, or \$826 per car, in the 1981–83 period. These increases in the real price of cars, holding the qualitative attributes constant, include the effects of tighter emissions control standards set by the government in 1980–81. These standards added \$454 (1982\$) to the cost of small new cars, which must be deducted from the estimated increase in the real, quality-adjusted price. Thus, as shown in part 2 of Table 7, the hedonic model estimates that the quotas increased list prices by an average of about \$370 per car in 1981–83. This calculation does not reflect changes in dealer discounts and rebates; inasmuch as rebates have narrowed substantially since March, 1981, the estimate is undoubtedly biased downward.

Finally, one can assess the impact of the VERs by examining the behavior of the Consumer Price Index for new cars since March, 1981. Historically, the CPI for cars has risen less rapidly than the total CPI. Part of the reason for this differential is that the Bureau of Labor Statistics deducts estimated improvements in quality — including regulatory costs — from price increases for automobiles. The total adjustment for quality improvements in 1981–83 was nearly \$850, of which about \$700 reflects regulatory costs. Since most other components of the CPI are not similarly adjusted, the new-car CPI should rise less rapidly than the total index, *ceteris paribus*.

The new-car component of the CPI increased by only 0.3 percent per year in the 1960s, while the CPI as a whole rose by 2.7 percent per year. In the 1970s, the corresponding figures were 5.1 percent and 7.5 percent. But since the inception of import quotas, the difference has narrowed remarkably. From March, 1981, through December, 1983, the new-car component of the CPI increased by 4.5 percent per year and the overall CPI by 4.9 percent. Had the 0.68 ratio of the 1970s persisted, we would have expected the new-car component to advance only 3.3 percent per year during this period — 1.2 percent less than actually observed. If the prices of domestic cars had risen at this lower annual rate, then, as part 3 of Table 7 indicates, they would have been an average of \$368 less than they were.

Equally striking is the behavior of the new-car CPI in the period just after the import quotas were introduced. From April through December, 1981, the new-car CPI increased at a 10.3 percent annual rate, after rising at a 4.1 percent rate for the preceding 15 months. This surge occurred during a continuing decline in demand.

The various calculations just discussed are likely, for four reasons, to underestimate the impact of the quotas. First, they do not take into account the sizable interest rate subsidies that were offered in 1981. Second, the continued appreciation of the dollar and the improvement in the relative quality of Japanese automobiles would have placed relatively more downward pressure on U.S. car prices in 1981–83 than in previous periods. If there had been no quotas, we surely would have expected U.S. car prices to reflect increasing import competition. Third, wage rates paid by U.S. automobile producers grew somewhat less rapidly than average U.S. wages in 1980–83, after having increased more rapidly in 1975–80. Absent the quotas, these lower wage costs would have been reflected in new car prices. Finally, with gasoline prices falling since 1982, federal fuel economy standards have undoubtedly led U.S. companies to restrain the prices of smaller cars.

“... the equation underestimates prices for 1983 by more than \$800 per car and for 1981–83 by a yearly average of \$430.”

Profits. As a check on these estimates, one might look at the before-tax profits of the companies. If prices increased abnormally relative to costs, profits should have risen relative to their historical relationship with volume. To test for this outcome, I used the Commerce Department's estimate of domestic profits (before taxes) in the motor vehicle industry, adjusted for changes in inventory valuation. Table 8 shows the very strong recovery in pretax profits since 1980. Despite much lower sales volumes, the real profit per domestic vehicle produced has rebounded to 1978–79 levels. In fact, on the sale of fewer vehicles than were sold in 1975, real profits per vehicle in 1983 were more than double what they had been in that earlier year. When before-tax profits, deflated by the CPI, are fitted to total vehicle sales (including trucks and buses), the import share, a dummy variable for the 1973–74 price controls, and a dummy variable for the 1981–83 period, the results show that profits have risen by 50 percent over 1960–80 levels for the same levels of vehicle production. This translates into \$280 per vehicle, including large cars, trucks, and buses. Since import restraints have not raised truck and bus prices and have had less of an impact on the prices of large cars than on those of small cars, the effect per small car must have been substantially greater than \$280. These increases in profits may have been due in part to productivity gains, but a substantial share of the explanation must be the price effects of import restraints.

Employment. It is difficult to see how the VERs could have shifted more than 8 percentage points of the market from Japanese imports to U.S. cars by 1983. If the higher prices caused by the quotas had no effect on automobile sales in 1983, a market share shift of this magnitude might have saved, at most, 46,200 production jobs in the automobile industry. (A swing of 8 percentage points to U.S. automobiles would have produced an 11 percent increase in domestic sales. Assuming that the elasticity of production workers with respect to output is 0.7, this translates into a 7.7 percent increase in employment on a 1983 average base of 600,000.)

If, as was almost certainly the case, higher prices reduced total automobile sales, the effect on employment was smaller. Quotas appear to have raised prices

by an average of about 5 percent, which, assuming a unitary elastic demand, translates into a 5 percent reduction in sales. Absent this reduction, total sales would have been 9.4 million units instead of about 8.9 million. If U.S. producers had obtained a 65.5 percent share of this larger total, their domestic sales would have been 6.0 million units instead of 6.4 million — and the number of production jobs in the industry would have declined by 26,200. What that cost has been depends upon the extent of relative-price effects, welfare losses in production, and welfare losses in consumption caused by constrained consumer choice. Concentrating only on the price effects, if the average price of U.S. cars has risen \$400 and the average price of Japanese imports has gone up \$1,000, the cost to consumers in 1983 was \$4.3 billion plus additional losses in consumer welfare due to the VERs' constraint on the choice of cars. The cost per job saved, therefore, was nearly \$160,000 per year. Employment creation at this cost is surely not worth the candle.

It is possible that the number of jobs saved was substantially less than 26,200 and that the per-job cost estimate just presented is overly conservative. Falling gasoline prices and the increasing demand for larger cars should have offset some of the rising pressure on small-car sales caused by a depreciation of the yen against the dollar in 1981–83. An eight percentage point shift in market share translates into an import share of 35.5 percent in 1983 without the quotas. This would have required Japanese imports of 40 percent more than the quota level in 1983. While it is conceivable that Japanese imports would have risen by this much, it seems unlikely; such an increase would have required a very high price elasticity of demand for these cars, little reduction in U.S. auto prices to meet the competition, or both. Without the quotas, it is likely that U.S. automobile prices would have been lower, thus restraining the shift to the Japanese models.

Conclusion

As this article is being completed, the Japanese government is beginning to express support for the restraints on automobile exports to the United States. This support has come as a "surprise" to U.S. trade officials, according to news reports. If the restraints raise the price of Japanese cars in the United States by \$1,000 per vehicle or more, the Japanese should be pleased indeed — unless, of course, a slightly tighter or looser restraint would increase their profits even more.

Given the scant evidence that these quotas are advancing the competitiveness of the U.S. automobile industry, their desirability turns on whether Americans wish to pay large premiums on their cars in order to increase the employment of auto workers at wages far above the manufacturing average. Indeed, because they have produced high profits in the industry, the VERs may actually lead to a widening of this wage differential in the 1984 contract negotiations. If that happens, the political necessity for quotas will increase, and future presidents will have difficulty arguing that the domestic automobile industry should once again face the rigors of international competition.

“[The desirability of the quotas] turns on whether Americans wish to pay large premiums on their cars in order to increase the employment of auto workers at wages far above the manufacturing average.”

Making the Most of the New Vice Presidency

Paul C. Light

EVERY FOUR years, the American vice presidency emerges from the shadows. Before and at the Democratic and Republican nominating conventions, the choice of vice presidential candidates becomes a focus of intense speculation and bargaining.

What makes this hoopla all the more intriguing is the fact that the vice presidency has always had such a bad reputation; it has been derided for nearly two hundred years, even—or perhaps especially—by those who have held the office. John Adams called it “the most insignificant office that ever the invention of man contrived or his imagination conceived,” and John Nance Garner declared, with some feeling, that the job was “hardly worth a pitcher of warm spit.”

The choice of a vice presidential candidate has traditionally been viewed as having more symbolic than substantive significance. Consequently, the selection has typically been made on the basis of political considerations, be they matters of intraparty import (the desire to propitiate a rival faction) or electoral strategy (the hope of balancing a ticket in an advantageous way).

This article argues that in the last decade or so the vice presidency has become a much more important office than it once was—more important in its impact on policy as well as politics—and that the criteria used to pick vice presidential candidates ought to reflect that transformation. Presidents these days need and can receive valuable help from their vice presidents—but only if, as presidential nominees, they select their running mates with the realities of governing in mind. The closing section of the essay discusses what presidents and vice presidents can do to ensure that the potential of the new vice presidency—for both of them—is realized.

The Metamorphosis of the Vice Presidency

The title has not changed, but the job certainly has. The vice presidency has become—at long last, against all odds—a very good place for a political figure to be. Three changes are especially striking.

First, the vice president's position description has been rewritten. At one time, vice presidents were relegated to ceremonial functions: cutting ribbons, attending funerals, chairing backwater White House commissions, serving on the Board of Regents of the Smithsonian Institution, and occasionally visiting Capitol Hill. Alben Barkley, vice president under Truman, had this recollection of his days as second in command: “I seemed to be much in demand as a crowner of ‘queens’ at various celebrations—Apple Blossom festivals, Cherry Blossom festivals, and just about every sort of festival that one can think of.” While vice presidents are still conspicuous by

Paul C. Light is a guest scholar in the Governmental Studies program at Brookings and the director of academy research at the National Academy of Public Administration. He is the author of *Vice Presidential Power: Advice and Influence in the White House and The President's Agenda: Domestic Policy Choice from Kennedy to Carter*.

“The vice presidency is now a more attractive position than ever before. It is a job for all reasons; it can further a politician’s presidential prospects, enhance his or her influence on policy, or simply satisfy a craving for perquisites.”

their presence at a goodly number of ceremonies, they now have extensive political and policy roles as well. They are key players in midterm and reelection campaigns; preeminent congressional lobbyists; and senior presidential advisers on all manner of policy issues. It is no exaggeration to say that there is a new vice presidency; Barkley would not recognize the job today.

Second, there has been a dramatic increase in the resources and institutional support accorded vice presidents. In 1961, Vice President Lyndon Johnson had fewer than twenty staff positions under his control; George Bush now has about seventy. The office of the vice president has become the fifth largest unit in the Executive Office of the President. Once a makeshift aggregation of detailees and others whose salaries depended on the generosity of strangers, the vice president’s office now has its own budget line and an annual appropriation of \$2 million. What is more, the last two vice presidents have had offices in the West Wing of the White House, just down the hall from the Oval Office. In addition, they have been given ample allotments of space in the Old Executive Office Building, next door to the White House, in which to house their sizable staffs. (In the old days, staff assistants to the vice president were scattered around Washington; this was not conducive to a strong sense of institutional identity.) The vice president also has an official residence now, located on Washington’s Embassy Row, and even—courtesy of Nelson Rockefeller—a new seal and flag. The old seal showed an eagle at rest; the new one pictures an eagle in flight, armed with a full claw of arrows.

The vice president’s office is a microcosm of the White House staff structure, complete with press, foreign policy, domestic policy, administrative, and political aides. Vice presidents are now equipped to carry real weight in the White House policy process. For example, Mondale was able, with the help of his domestic policy shop, to become the manager of the Carter administration’s agenda-setting process; in that capacity, he was able to exercise a good deal of influence over the

administration’s legislative priorities.

Third, presidents have finally come to realize how helpful vice presidents can be to them—as allies and advisers on the campaign trail, in negotiations with Congress, and in the development of policy. While it is difficult to be very precise about the origins of this recent advance in the presidential valuation of vice presidents, one critical factor has been a series of changes in the context in which presidential business is conducted. For example, the decline of the national party organizations has increased the usefulness of vice presidents as campaigners, spokesmen, and public liaison specialists. The diffusion of power in Congress—due to the proliferation of subcommittees, the decline of seniority, and the weakening of party leadership—has enhanced the importance of whatever clout and skill vice presidents can bring to bear in lobbying for the passage of administration initiatives. Finally, the sheer complexity of the world that presidents have to contend with—the crush of issues and programs—has made them more receptive to assistance from vice presidents and their staffs.

The Watergate scandal played a key role in the emergence of the new vice presidency. In 1973, President Nixon, under increasing fire from the press and the Congress, asked House Minority Leader Gerald Ford to bring his good name and his Capitol Hill connections to the White House as the successor to Vice President Spiro Agnew, who had resigned. Ford, who knew that he was in a strong bargaining position under the circumstances, demanded as a condition of his coming on board more staff and independence than had previously been afforded vice presidents. After Nixon himself resigned and Ford succeeded to the presidency, he realized that he needed a strong vice president to shore up his administration. Nelson Rockefeller—who had turned down offers in 1960 and 1968 of the vice presidential spot on the Republican ticket—extracted, as his price for relenting this time around, chairmanship of the Domestic Council, access to the Oval Office, and

further expansion of the vice presidential staff.

It remained for Walter Mondale to consolidate and build on the gains that had been made and, in so doing, to establish a powerful precedent for future vice presidents. Mondale was clearly a member of President Carter's inner circle, and, as such, had more impact on presidential decisions than any vice president in history. He was a key force on behalf of numerous Carter initiatives—among them the appointments of Joseph Califano and Robert Bergland to cabinet posts; creation of the Department of Education; admission of the Shah of Iran to the United States for medical treatment; the attempt to rescue the American hostages in Iran; electoral reform; expansion of the CETA job training program; and hospital cost containment.

Mondale did suffer his share of defeats, having opposed the Soviet grain embargo, the MX "racetrack" design, the 1979 firings of cabinet officials, the sale of F-15s to Saudi Arabia, and budget cuts in social services. But whatever the exact tally of victories and setbacks, the central point is that Mondale's influence in the Carter administration raised expectations about the role to be played by future vice presidents—and made it more difficult for future presidents to turn back the clock. He was the first vice president to maintain regular access to the president, becoming more of a senior adviser and less of a figurehead. He had a standing invitation to all meetings and full access to information, including the President's Daily Brief on foreign policy. Finally, he was the first vice president to have an office in the West Wing of the White House; it has come to be known as the vice president's office and appears to have become a permanent endowment of the vice presidency.

The vice presidency is now a more attractive position than ever before. It is a job for all reasons; it can further a politician's presidential prospects, enhance his or her influence on policy, or simply satisfy a craving for perquisites.

For someone who wants to be president someday, what better job to have for the time being than the vice presidency? First, the job involves considerable contact with state and local officials, who could become valuable allies in a future bid for the presidency. Mondale's liaison work as vice president led to countless endorsements of his 1984 presidential candidacy from the very state and local officeholders he had once dealt with on behalf of Jimmy Carter. Second, the job entitles the occupant to advanced on-the-job political training. Not only does campaigning increase a vice president's national visibility and enhance his or her political network, it also helps to refine, through constant practice, a vice president's speaking and gladhanding skills. Third, the job gives a vice president many opportunities to heal old wounds and to demonstrate loyalty to the president's wing of the party. Fourth, the vice presidency ensures a politician four years of free and extensive media coverage. The job has been known to transform relative unknowns into household names and putative frontrunners for future presidential nominations.

For someone who wants to shape national policy, what better position to be in, short of the presidency

itself, than the vice presidency? As Mondale demonstrated, a vice president can have a substantial impact on how both foreign and domestic issues are addressed. Vice President Bush has carried forward this legacy of influence; inside sources indicate that he has been a powerful force for moderation in the Reagan White House—arguing forcefully for withdrawal of American troops from Lebanon, for example.

Finally, for a politician who savors the spoils of victory, what better circumstance for pomp than being in the second-highest office in the land? Vice presidents are like most politicians; they like red carpets and limousines, jet airplanes and first-class accommodations, bands and salutes. The vice presidency now offers more perquisites, and its incumbents are treated with more dignity and greeted with more effusion, than ever before. Gerald Ford, when he was vice president, mused on the trappings of the office: "I am now surrounded everywhere by a clutch of Secret Service agents, reporters and cameramen, and assorted well-wishers. When I travel, I am greeted by bands playing 'Hail, Columbia' and introduced to audiences with great solemnity instead of as 'my good friend Jerry Ford.'" Thus, even if the job does not work out in terms of politics or policy—even if, for whatever reason, the president shuns and isolates the vice president—there are perquisites attached to the office that can help ease the pain.

Balance and Compatibility

The new vice presidency is an appealing job, but it comes with no constitutional guarantees of access and influence. It is true that presidents now have strong incentives to utilize their vice presidents for more than ceremonial duties and that vice presidents now have the resources they need to play major roles. But much still depends on the compatibility—both personal and political—of a president and vice president.

Unfortunately, vice presidential nominees are often chosen so hastily that the chances of a mismatch are high. Carter in 1976 was an exception to this pattern. Having wrapped up the Democratic presidential nomination well in advance of the convention, Carter had the time—and took the time—to be more deliberate in his selection of a running mate. He and his staff assembled a list of twenty or so possible nominees and ranked them on leadership abilities, voting records, constituency connections, campaign skills, and geographic strength. After narrowing the list to seven (Mondale, Edmund Muskie, John Glenn, Henry Jackson, Frank Church, Adlai Stevenson, III, and Peter Rodino), Carter interviewed the candidates and decided on Mondale.

Clearly, choosing a running mate is—and will continue to be—a political decision. Presidential candidates are understandably concerned, first and foremost, with getting elected. Nevertheless, the qualities that make for an appealing running mate may not make for a smooth working relationship in office. Indeed, if there is a pattern in vice presidential nominations over the past two decades, it is that opposites attract. The theory seems to have been that the key to a

strong ticket is balance, whether on the basis of geography, ideology, or, it is now being argued, gender.

Whether these balancing acts lead to strong vice presidencies depends on the most important balance of all, the one between Washington insiders and outsiders. Presidents who are new to national politics and government tend to rely more heavily on their vice presidents than do presidents who have spent the bulk of their political careers in Washington. Because outsider presidents enter office with fewer resources, their vice presidents have more opportunities for input and impact. The most recent outsider presidents (Eisenhower, Carter, and Reagan) picked insiders as their vice presidents (Nixon, Mondale, and Bush)—and all three vice presidents expanded the role of their office. Nixon took on extensive political responsibilities; Mondale played an active and central policy role; and Bush has become more heavily involved in foreign affairs than any of his predecessors.

The opposite combination—insider presidents with outsider vice presidents—is the least likely to succeed. This pattern has appeared only once in recent years: Nixon's selection of Agnew as his running mate. Agnew was the least prepared of the modern vice presidents and was quickly frozen out of the policy process in the Nixon administration. In fact, Nixon was so unhappy with Agnew's performance in office that he considered replacing him on the ticket in 1972. Like Agnew, most outsiders simply do not have enough information or expertise to fight for influence in an insider's White House.

The balance with the most uncertain outcome is also the one that has occurred most frequently over the past four decades: an insider president with an insider vice president. That pattern has appeared seven times during this period: Roosevelt-Wallace, Roosevelt-Truman, Truman-Barkley, Kennedy-Johnson, Johnson-Humphrey, Nixon-Ford, and Ford-Rockefeller. The first and last of these teams involved significant policy roles for the vice president (Wallace as chairman of a major wartime agency and Rockefeller as head of the Domestic Council); the others did not. Insider presidents—and Kennedy and Johnson were prime examples of this—have tended to see their vice presidents as irritations and impediments to quick action. With stronger incentives to use their vice presidents and the increased resources that vice presidents now enjoy, future insider presidents are more likely to draw on their number twos. But the plain fact is that they do not need help of even insider vice presidents as much as outsider presidents do.

Presidential nominees are not likely to abandon political criteria in selecting their running mates. What they need to do, however, is supplement political considerations with a second set of questions. Within the pool of politically acceptable possibilities, presidential candidates should assess the compatibility, leadership qualities, experience, intellect, and savvy of each potential candidate. The strength of the Carter system in large part was that it incorporated these additional factors. Having winnowed his list of potential running mates down to a group of politically strong candidates, Carter then considered other characteristics—and,

while Muskie and others on the short list were certainly qualified, Carter picked a running mate with whom he felt he could work comfortably.

Effectiveness in Office

It is in the vice president's best interest to start building a working relationship with the president and White House staffers as early as possible. Looking back at the Mondale and Bush experiences, there seem to be four somewhat distinct periods in forging that partnership.

The first is the series of conversations leading to acceptance of the vice presidential nomination itself. It is important at this stage to gain the presidential candidate's support for an active vice presidency. Even if that support is ambiguous, obtaining it is a necessary first step in what might be called "presidential consciousness-raising." Conventions are hardly the time and place to outline detailed plans for a future administration. The ticket must win first. Nevertheless, the vice presidential nominee should try to elicit some general commitments—to access, for example. During the convention-time press conferences regarding his or her nomination, the vice presidential candidate should make clear his or her conceptions of the office. Occasional references to the Mondale precedent (for Democrats) or the Bush precedent (for Republicans) should suffice for this purpose.

The second phase comes during the campaign. In 1976, for example, Mondale decided to merge his campaign staff with Carter's and to move it to the presidential candidate's Atlanta headquarters. As one Mondale aide later recalled, "When we got to Washington after the election and the principal Carter campaign workers became the core of the White House staff, our relationships were established. It was easy to continue the cooperative working relationships that had been established in Atlanta."

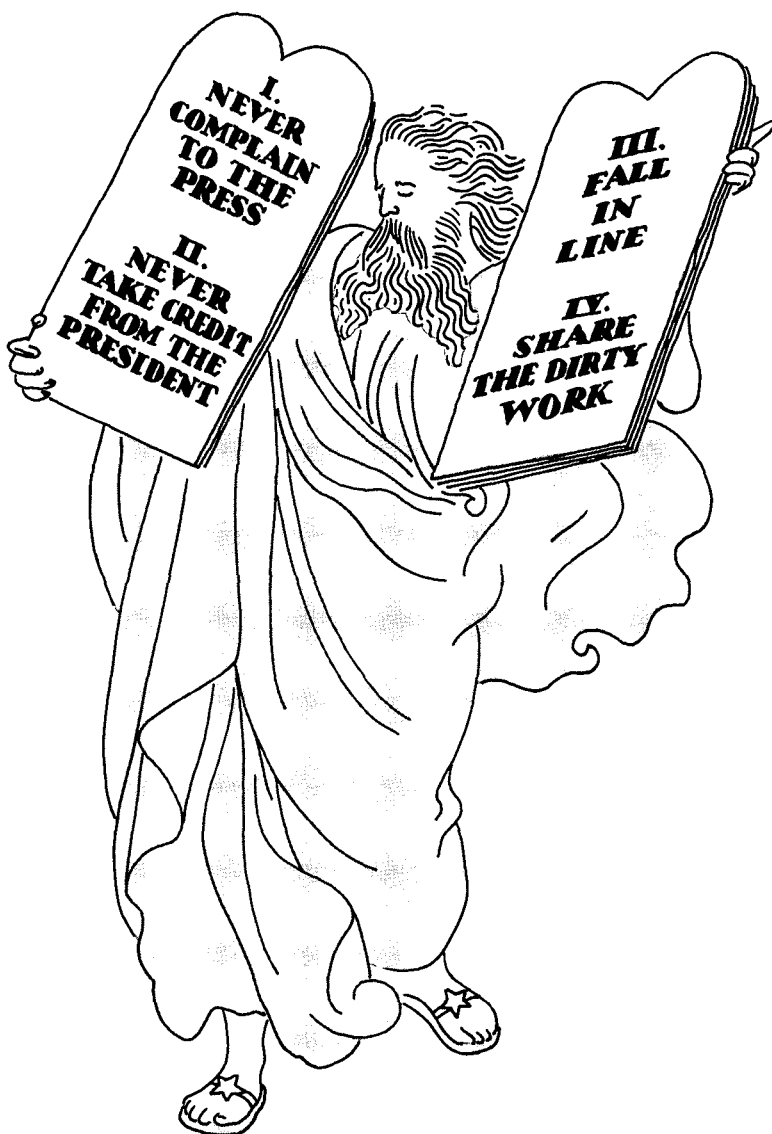
The campaign also offers a chance for the vice presidential candidate to prove his or her mettle. Mondale's performance in the 1976 campaign, particularly in his debate with Republican Robert Dole, boosted his reputation with Carter and the future White House staff. Given the closeness of the 1976 election, Mondale could claim at least some of the credit for Carter's victory. The campaign is even more important to future harmony if the vice presidential nominee happens to have been a defeated candidate for the presidential nomination. Old comments have a habit of popping up. In 1980, Bush's oft-quoted remarks about "voodoo economics" had to be erased. His bruising campaign schedule and repeated demonstrations of loyalty helped rebuild his image with Reagan and his advisers.

The third phase of the relationship-building process comes immediately after the election. The vice president-elect should prepare a detailed memorandum outlining his or her ideas about the job and its responsibilities. This is the time to hammer out some specific understandings with the president-elect—for example, agreement that the two will have a weekly private meeting and that the vice president will be given a West Wing office and access to all information and meetings. If not now, then when?

“What works best is working diligently outside the White House and quietly within it.”

The transition also offers an opportunity for the vice president-elect to participate in the appointments process. The vice president-elect can contribute to the list of potential appointees for the 2000 or so political positions to be filled; if his or her people are chosen, they become valuable allies within the new administration. Moreover, if the vice president-elect can participate in the selection of cabinet officers, he or she can influence the course of the administration from the very start. Mondale's role in the appointments of Califano, Bergland, Blumenthal, and Vance to cabinet posts surely created a measure of indirect influence over the Carter agenda. Further, Mondale's willingness to lend several of his own top aides to the Carter staff created backchannels for influence and information. In particular, Mondale's former aides Bert Carp and David Aaron emerged as key deputies on the Domestic Policy Staff and National Security Council staff respectively. On one level, they were simply conduits for briefings and papers. On another, they served as powerful signals to other senior White House officials that Mondale could not be ignored. “Every Cabinet secretary, every policymaker in the executive branch knew these two people would keep Mondale and his staff informed on any issue in which Mondale had or should have an interest,” a top Mondale aide later reported. “Any executive branch policy-maker inclined to exclude Mondale from the process was quick to learn that it wouldn't work.” Bush's willingness to lend James Baker, III, to Reagan as chief of staff had a similar effect, giving the vice president an important source of leverage and information.

The fourth and final phase of the process involves the inauguration and the early days in office. The most important step to take at this stage is to secure a West Wing office, close to the action. This move is central to a more general strategy of filling vacuums early in an administration. As a presidency ages, the vacuums always close: White House staffers learn the ropes, knowledge expands, new people arrive. The legislative



Robert Wiser

and election calendars clearly point to the first year of an administration as the critical period for influence both inside the White House and on Capitol Hill. Presidents set their policy agendas early in the term. If presidents often “move it or lose it,” so must vice presidents. They must set their agendas early also, so that they can take advantage of the opportunities for impact that are open in the first few months of a term.

There are other lessons for vice presidents from the Mondale and Bush successes. First among them is that it is crucial to the effectiveness of vice presidents that the presidents they serve are willing to listen. After all else is said and done, a vice president's job depends on the president's commitment to their relationship. Each hour that the president spends in private conference with the vice president is an hour *not* spent with someone else. That is why what the vice president can bring to those conversations in the way of knowledge and experience is so important.

Carter, whose lack of Washington experience gave him all the more incentive to listen to Mondale, clearly wanted an active vice president. Carter believed in using all of his staffers, and he was determined to make

the vice presidency work. First, Carter repeatedly instructed his staff to include Mondale in the White House policy-making process. Second, Carter's own operating style helped Mondale. Carter preferred to be pulled and pushed on most issues, telling his staff only that they were to "be bold" in their presentation of options and analyses. As part of this process of give-and-take, Carter and Mondale met frequently. Third, Carter had an expansive policy agenda, which gave Mondale more room for influence. As Jordan later recalled, "Mondale took advantage of the opportunity and tried to influence administration policy, and that was just how Carter wanted it. To the extent people blame Mondale for pursuing his own 'agenda,' he was only doing what he had been urged to do from the outset by the president."

Vice presidents fare best under presidents who have open staffing systems; they do not thrive in hierarchical systems. The more people there are guarding the president, the fewer opportunities there are for vice presidential impact. Vice presidents have had more success in "collegial" or "spokes-of-the-wheel" systems, taking advantage of the chances to work one-on-one with the president. Vice presidents have more freedom to move in and out on the issues in such systems, avoiding conflict with gatekeepers.

There are ways that vice presidents can make themselves more attractive as advisers and confidants. In the first place, Mondale suggested, an "adviser must be ready to advise." It helps to have occupied a national office before joining the ticket; senators and representatives have more exposure to national issues and politics than governors do. Once in office, however, the best assurance of being prepared is access to all of the paper moving in and out of the Oval Office. "That might sound like a little matter," Mondale said, "but you cannot possibly imagine the tremendous volume of paper that flows into and from the president's personal office. You cannot possibly imagine, unless you have been part of it, the tremendous flow of secret classified information on defense, the political situation in other nations, on assessments and appraisals by our intelligence communities." Without access to this information, the vice president cannot compete with other White House advisers. How could Agnew advise Nixon on China policy when he did not even know the issue was being discussed? When asked whether he had told Agnew about his dramatic trip to China, Nixon replied, "Agnew? Agnew? Oh, of course not."

Vice presidents can also help themselves by being connected to key constituency groups with which the presidential relationship is not strong. Much of Mondale's value inside the Carter White House came from his political connections to liberals, labor, and Jewish organizations. As Carter moved leftward to meet Edward Kennedy's challenge in the 1980 primaries, Mondale's ties proved to be extremely useful, balancing Carter's Southern strength. Moreover, Mondale's links to the Capitol Hill establishment helped when Carter's legislative program became tangled in the congressional system.

Vice presidents also enhance their own effectiveness by becoming team players and assuming a low profile

once in office. As a Bush aide commented, "Bush earned Reagan's respect by working hard, not making mistakes, and proving that he was a 100 percent, solid team guy. The first time that Bush went into the Oval Office and the conversation came out in the papers, we'd find ourselves with a job that wouldn't be worth having." There are four basic rules for vice presidents to follow in order to build trust inside the White House:

- (1) *Never complain to the press.* One of Rockefeller's continuing problems in the Ford administration was his high profile in the media. Leaks were easily and often traced to the vice president's office.
- (2) *Never take credit from the president.* The vice president must constantly be mindful of who is president—and who is not.
- (3) *Fall in line.* No matter how much the vice president opposes a presidential decision, he or she must support the final policy. The vice president does not have to become a vocal supporter or lobbyist on the particular issue, but must fall in line like any other staffer.
- (4) *Share the dirty work.* Though the vice president may not like endless travel, for example, it comes with the territory; it is part of being a team player. Mondale was on the road 600 days during his term.

What works best is working diligently outside the White House and quietly within it. Unlike Rockefeller, Mondale preferred to operate through hidden channels, avoiding open positions. Mondale learned this style during his long service as a protege of other politicians. According to his closest campaign aide, James Johnson, "On the fundamental question of being the junior partner, he was schooled beyond anyone else in American politics." Whereas Rockefeller's motto had once been "I never wanted to be vice president of anything," Mondale's might have been "patience is a virtue." This is not to say Mondale was a passive player in the White House—he was very active. But he knew he was not president, and he acted accordingly.

Finally, vice presidents should avoid line assignments. Such duties generally involve administrative chores and absorb a great deal of time and energy. Every hour spent in line responsibility is an hour not spent with the president. And, as Mondale once observed, if line assignments were truly important, they would be "assigned to some cabinet or key executive officer and why should I handle them? Or, if they weren't significant, they would trivialize the vice presidency."

The fundamental theme of this essay has been this: It is time to take the vice presidency seriously, as a major resource for presidents and an office of great potential for its incumbents. That means that presidents should make a determined effort to find and then to utilize talented and seasoned vice presidents who can help to make their administrations more effective; and it means, alas, that we should begin to phase out one of our most venerable national pastimes: making fun of the vice presidency.

The Attenuation of Antitrust

Robert A. Katzmann

ANTITRUST — as a political issue and as a policy tool — has fallen on hard times. In the early decades of this century, antitrust questions were central — in presidential campaigns and administrations and in fervent debates about the structure and dynamics of the American economy. Antitrust was vital then; it was thought to encompass fundamental issues — about the value of competition, about the political and social significance of economic concentration, about the extent to which government ought to be permitted to constrain the free enterprise system, and about the continued viability of such quintessentially American values as entrepreneurialism, individualism, and economic self-reliance.

In recent years, antitrust has become a side issue. No longer the focal point for competing conceptions of American society, it now involves little more than the adduction and application of various tests of economic efficiency. Social and political concerns are no longer considered legitimate, let alone crucial, elements in the shaping of enforcement patterns and priorities.

This article will argue for a broader view of antitrust than now prevails. Antitrust policy ought to reflect not only what we have learned over the years about the economics of competition, but also what we know about the social and political values that the framers of the antitrust laws intended their handiwork to incorporate.

Original Intentions

These days, commentators and policy-makers alike are wont to assume that the antitrust laws exist to serve solely economic ends: the maximization of efficiency and of what is known as consumer welfare. But it seems clear from the historical record that the antitrust statutes were conceived, and therefore should be construed, more expansively than that.

The antitrust laws were meant to foster competition — both as an end in itself and as a means to other objectives. As to the first point, the advocates of antitrust contended that competitive processes were much to be preferred to what were seen as the two alternative instruments for organizing and directing economic activity: control by government or domination by private monopolies. As to the second point, antitrust was expected to promote desirable levels of economic performance by individual firms and, more generally, by the economy as a whole. It would have, according to its proponents, beneficial effects on economic growth, employment, price stability, technological progress, and efficiency.

But the values that gave life to the antitrust statutes were not only eco-

*Robert A. Katzmann is a research associate in the Governmental Studies program at Brookings. A lawyer as well as a political scientist, he is the author of *Regulatory Bureaucracy: The Federal Trade Commission and Antitrust Policy*. He is currently completing a book on federal policy regarding access for the handicapped to mass transportation.*

“Antitrust was intended also to further a social and moral vision of America. At the core of that vision was a conviction that the past greatness, and future potential, of the country depended on the kind of character — resourceful, practical, and determined — that only competitive individualism would foster.”

nomie; they were political and social as well. Antitrust reflected the deep-rooted and persistent American fear that concentrated private power could undermine democratic government. The statutes were designed to check and diffuse such power, in order to prevent large firms from acquiring and exercising inordinate political influence and economic control. If the preservation of small businesses and decentralized markets led to higher prices and something short of optimum productive efficiency, these costs were thought to be well worth bearing.

Antitrust was intended also to further a social and moral vision of America. At the core of that vision was a conviction that the past greatness, and future potential, of the country depended on the kind of character — resourceful, practical, and determined — that only competitive individualism would foster. It followed that the freedom for Americans to find and pursue opportunities in the marketplace had to be preserved. The notion of “fair dealing” evolved; if the wielding of economic power could be constrained by norms of fairness, individuals would continue to have a chance to launch their own enterprises and prove their merit in a free market. What was deemed to be at stake was not simply economic growth, but the very nature of American society.

The politicking that surrounded the passage of the three major antitrust laws — the Sherman Antitrust Act of 1890, the Federal Trade Commission Act of 1914, and the Clayton Act of the same year — was, as might be expected, intense and complex; it simply will not do to read the histories of these statutes as unidimensional tales of efficiency maximization. Regarding the first of this triad, Senator Sherman himself made it clear that the law was intended to serve purposes, and respond to concerns, that went well beyond a narrow preoccupation with efficiency:

The popular mind is agitated with problems that may disturb the social order, and among them all none is more threatening than the inequality of condition, of wealth and opportunity, that has grown within a single generation out of the concentration of vast combinations of capital to control production and trade and to break down competition. These combinations already defy or control powerful transportation corporations and reach state authorities. They reach out their Briarean arms to every part of the country. They are imported from abroad. Congress alone can deal with them, and if we are unwilling or unable there will soon be a trust for every production and a master to fix the price of every necessity of life.

The other two statutes drew support from a variety of sources — and for a variety of reasons. For example, some business representatives pressed for the Federal Trade Commission Act in the belief that a regulatory commission would protect their interests by impeding the emergence of new competition in their markets. Other backers of the bill contended that new legislation was needed to counteract the Supreme Court’s 1911 decision that only unreasonable restraints on trade — rather than all restraints — were illegal under the Sherman Act; these advocates anticipated that the new law would promote competition.



Laura Costas

It is perhaps difficult to appreciate today how fundamental, urgent, and emotional an issue antitrust was in decades past; the champions of antitrust saw themselves engaged not in a campaign for the scientific enhancement of efficiency, but in an all-out struggle over the future of America — over what sort of country it would be. Thus, the Democratic party's platform in 1900 warned that unless the "insatiate greed" of monopolies could be checked, "all wealth will be aggregated in a few hands and the Republic destroyed." Theodore Roosevelt was only a shade less dramatic in his explanation of why it had been "imperative" to bring a congeries of major antitrust actions:

It was only these suits that made the great masters of corporate capital in America fully realize that they were the servants and not the masters of the people, that they were subject to the law, and that they would not be permitted to be a law unto themselves.

The Antitrust Rollback

Until recently, antitrust policy-makers took a broad view of their mandate; enforcement decisions were guided by political and social concerns as well as economic ones, and there was a good deal of continuity from administration to administration in the kinds of

cases brought and the vigor with which they were pursued. The last decade, however, has brought changes — in antitrust scholarship, legal training, procedural complexity, and economic context — that have altered the climate for antitrust. As a result of these changes, which will be discussed below, a consensus that had persisted for the better part of a century — on the deleterious effects of economic concentration and the appropriateness of structural remedies — has come undone.

Antitrust Scholarship

The most important element in this breakdown of consensus has been a sharp challenge, mounted by economists and law professors at the University of Chicago and elsewhere, to the conventional assumptions of antitrust analysis. Members of the so-called Chicago School argue that social and political objectives should not be factored into the setting of antitrust policy and priorities — and that statutes that were intended expressly to serve such purposes should be discarded. Thus, Judge Robert Bork, a leading expositor of the Chicago perspective, has proffered this assessment of the Robinson-Patman Act of 1936, which deals with price discrimination and was designed to protect small businesses: "The Robinson-Patman Act is the *Fanny Hill* of antitrust — a statute no man should let his

daughter read. Outright repeal, I think, is the only answer."

In advocating a focus on economic considerations only, Chicago School analysts also advance an untraditional, but increasingly influential, view of marketplace dynamics. The standard conception has been that increases in concentration on the seller side of a market tend to yield increases in the elevation of prices above unit costs, reductions in competition, and restrictions of output. But according to the Chicago School, concentration in a market simply reflects the economies of scale that are available to producers; firms must be of a certain size in order to take advantage of these economies. If the largest sellers in the market make above-normal profits, those profits should be seen as the natural concomitants of greater efficiency; the largest firms are able to realize economies of scale more fully than their smaller competitors. Chicago School economists conclude that enforcement officials should proceed against horizontal restraints only in markets with very substantial barriers to entry — and that they ought to presume that most vertical restraints (e.g., a firm's acquisition of its supplier) are not anticompetitive.

Legal Training

Although economists are increasingly important players at both the Antitrust Division of the Justice Department and the Bureau of Competition at the Federal Trade Commission, lawyers continue to dominate the setting and execution of enforcement policy. How these lawyers approach antitrust issues is significantly shaped by the framework for analysis that they were taught in law school.

Law school professors in general — and antitrust professors in specific — have traditionally used a pedagogical technique known as the case method. Course readings and classroom discussions have centered on past judicial opinions and their implications for the resolution of hypothetical cases. In antitrust courses, students have read, and reasoned from, judicial decisions that reflected the several types of values — political, social, and economic — underlying the major antitrust statutes, and they have become accustomed to thinking about antitrust issues from these several perspectives.

In recent years, however, the case method has been supplemented in most law schools by other approaches — lectures, interdisciplinary inquiries, simulations, and clinical training. Instruction in the fundamentals of microeconomic analysis has become a core component of most antitrust courses — and it is no exaggeration to say that the fundamental question that antitrust students these days are adjured to focus on is not whether a particular judicial decision makes sense in terms of past cases, but whether it makes sense from the standpoint of economics. The political and social purposes of the antitrust laws are given less attention, and therefore less credence, than they were when the standard case method of teaching was employed. Lawyers who have been trained to address antitrust issues from an economics perspective are less apt than their predecessors to launch antitrust enforcement actions to serve non-economic objectives.

The impact of this shift in analytic perspective shows

up not only in the enforcement agencies, but also in the courts. Recent law school graduates bring a law-and-economics background to their work as clerks to federal judges, and some of the most distinguished academic proponents of an economics-grounded understanding of antitrust — among them Robert Bork, Richard Posner, and Ralph Winter — have been appointed to the bench in the last several years.

Procedural Complexity

The mammoth structural antitrust suits of the 1960s and 1970s — for instance, those directed at IBM, the major oil companies, and the cereal manufacturers — took many years to develop and pursue. The frustrations of delay endemic to these cases, the procedural wranglings, and the difficulties of attracting and retaining first-rate attorneys to staff such lengthy proceedings have all dampened the enthusiasm of enforcement officials for ambitious attempts to reduce concentration in major industries. Moreover, critics have argued that during the protracted period between the filing of a structural suit and its resolution the market conditions in an industry may change so dramatically that the remedies originally sought may be inappropriate by the time they are granted.

Economic Context

Changes in America's economic circumstances have also affected the climate for antitrust. Since the late 1970s, domestic economic problems — inflation, unemployment, and high interest rates — have made it more difficult for enforcement officers to justify the allocation of their resources to cases designed to further social goals, such as the preservation of small businesses, and easier for them to direct resources to cases that might promote efficiency and lower prices. Moreover, concerns about the increasing rigors of international competition have led conservatives and liberals alike to argue that domestic constraints on firm size and industry concentration may weaken the ability of American companies to go toe-to-toe with foreign competitors in world markets. Thus, when the Justice Department blocked for a time LTV's attempt to acquire Republic Steel, Secretary of Commerce Malcolm Baldrige objected on the grounds that Justice had not given enough weight in its deliberations to the foreign competition that had contributed to the woes of domestic steel producers such as Republic.

These shifts in the climate for antitrust are reflected in the current administration's policies. Shortly after the president took office, the day-to-day head of his regulatory relief effort, economist James C. Miller, III, unveiled a proposal to eliminate the antitrust jurisdiction of the Federal Trade Commission — a recommendation that met with vigorous opposition from key members of Congress. Later, when Miller became chairman of the FTC, he cut the agency's antitrust enforcement budget. William Baxter, a former law professor who until recently was head of the Justice Department's Antitrust Division, joined Miller in explicitly forsaking the social and political objectives of antitrust — and in altering enforcement priorities accordingly. The merger guidelines of the Justice Depart-

ment and the merger policy statement of the FTC were drafted to ensure a reduced concern with vertical and conglomerate mergers and a more lenient attitude toward horizontal mergers. It is not surprising that merger activity has risen markedly in the last several years, culminating with the FTC's approval of the largest merger in history, Socal's \$13 billion acquisition of Gulf. The key antitrust officers in Justice and the FTC have adopted the Chicago School's presumption that market concentration makes possible the fuller exploitation of economies of scale. The Antitrust Division has continued to pursue price-fixers assiduously; this is one area of enforcement in which a break with the past is not evident. The FTC has brought suits, and intervened before state and local authorities, to promote competition within the professions and to seek removal of government licensing requirements and regulations that unreasonably constrain market entry.

The rollback in antitrust is a product of the climatic changes discussed above. The Reagan administration has been peppered with a generous sprinkling of Chicago-style academics and has therefore probably been more receptive to those changes than some other administration might have been, but the new perspectives on antitrust that are evident in this administration are by no means confined to the Republican party or to the conservative portion of the political spectrum.

The Need for Synthesis

Antitrust is a many-splendored thing. It was not intended, by the drafters of the laws that govern it, to be a purely economic phenomenon. What is more, it cannot be. The intensity and patterns of antitrust enforcement ineluctably have an impact on non-economic aspects of American society, because how we organize and conduct business has non-economic ramifications. We ought not to pretend otherwise.

To say, however, that we should acknowledge the social and political significance of antitrust and incorporate that understanding into the shaping of antitrust policies is not to say that we should revert to the status quo ante. The Chicago School has done — and has stimulated — a good deal of new thinking about the economic assumptions that have traditionally been made by antitrust officials — including a few assumptions (e.g., about the consequences of resale price maintenance) that are beyond the scope of this essay. Much of the Chicago School's analysis is hotly disputed within the economics community, but there seems to be a consensus that at least some of the old rules were too restrictive. For example, most economists would agree that the ceiling that used to prevail for horizontal mergers — a combined market share of five percent — was too low, and that antitrust decision-makers should be free to take international competitive circumstances into account in assessing proposed mergers. In short, what is called for is a synthesis of old values and new learning. If we can combine a commitment to the values embodied in the antitrust laws with a recognition that our understanding of the dynamics of competition is evolving, then perhaps antitrust — that faded passion of American reform — will bloom again.

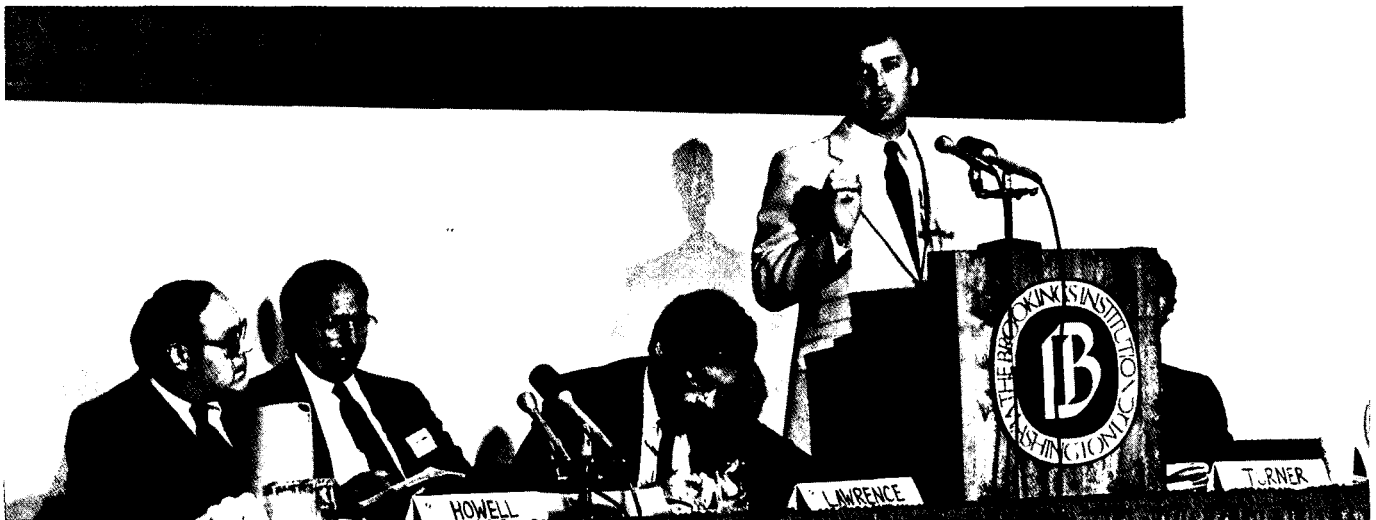
“. . . what is called for is a synthesis of old values and new learning. If we can combine a commitment to the values embodied in the antitrust laws with a recognition that our understanding of the dynamics of competition is evolving, then perhaps antitrust — that faded passion of American reform — will bloom again.”

Conference on Economic Policy

IN CONJUNCTION with the publication of *Economic Choices 1984*, a new volume edited by Alice M. Rivlin, the Advanced Study Program at Brookings convened a National Issues Forum on the proposals set out in the book. Among the topics discussed were strategies for sustained economic growth, potential reductions in both domestic and defense spending, tax reform, and options for easing adjustment to industrial change.

Speakers at the Forum included Martin S. Feldstein, then chairman of the Council of Economic Advisers; Senator Dan Quayle; Representative Willis D. Gradison, Jr.; Lawrence J. Korb, assistant secretary of defense for manpower, reserve affairs, and logistics; Stuart E. Eizenstat, partner in Powell, Goldstein, Frazer & Murphy and former assistant to the president for domestic affairs and policy; Charles E. McClure, deputy assistant secretary of the treasury for tax analysis; J. William Howell, corporate director of government relations at the IBM Corporation; and Brian Turner, director of legislation and economic policy in the industrial union department of the AFL-CIO. A large contingent of Brookings researchers also made presentations at the conference: Rivlin, director of the Economic Studies program; Henry J. Aaron, Barry P. Bosworth, Harvey Galper, Robert Z. Lawrence, and Louise B. Russell, senior fellows in that program; and John D. Steinbruner, director of the Foreign Policy Studies program.

From left to right: J. William Howell; A. Lee Fritschler, director of the Advanced Study Program; Robert Z. Lawrence; and Senator Dan Quayle.





Above, from left to right: Representative Willis D. Gradison, Jr.; Louise B. Russell; and Stuart E. Eizenstat.



Far left: Henry J. Aaron.



Left: Harvey Galper.



Far left: Alice M. Rivlin.

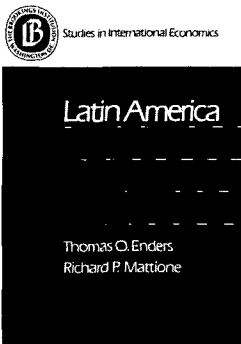


Left: Martin S. Feldstein.

Latin America's Financial Crisis

Latin America: The Crisis of Debt and Growth

By Thomas O. Enders and Richard P. Mattione. \$6.95 paper.



L A T I N A M E R I C A is struggling to cope with a massive debt of more than \$300 billion; it has had to negotiate for revised payment schedules from banks that have made loans to the region in excess of their capital. The loans outstanding to Latin America account for almost three-fifths of all bank loans to developing countries. But the debt problem is not the only one plaguing Latin American economies; they are experiencing a growth crisis as well. After two decades of rapid growth, Latin America has entered a period of economic stagnation — and this in turn has led to severe unemployment, spreading poverty, and political unrest.

Expanded trade with the industrialized world is necessary for Latin American countries to overcome their economic difficulties, according to Thomas O. Enders and Richard P. Mattione. Enders, currently the U.S. ambassador to Spain, and Mattione, a research associate in the Foreign Policy Studies program at Brookings, base that conclusion on an analysis of the growth and debt-servicing capabilities of seven countries: Argentina, Brazil, Chile, Colombia, Mexico, Peru, and Venezuela.

Latin America cannot look to a strong Western recovery as a cure for what ails its economies. The authors project that even with such a recovery and stable interest rates, per capita income in Latin America would be about seven percent lower in 1987 than it was in 1982.

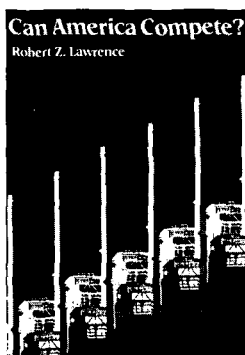
According to Enders and Mattione, an export-led Latin American recovery, built on small real currency devaluations, is the one route that would yield substantially higher growth for the region without eroding debt-servicing capabilities. They warn, however, that expanded trade will not be easy to achieve. Its realization depends, first, on the willingness of creditor nations to open their markets to Latin American goods, and, second, on the resolve of the Latin American nations themselves to pursue domestic policies — especially exchange rate policies — that encourage trade, even if these policies might hurt some of their industries and users of imported goods and services.

The authors consider other options available to Latin American debtor nations and find them unworkable. Attempts to arrange for radical debt restructurings, for example, are judged unlikely to succeed; "Latin America cannot resume growth without new credits," they write, "but renewed bank lending would be improbable in the face of significant losses on current loans." Nor, they add, should Latin America rely on a vast expansion of official lending — even if assurances could be put in place that the official loans would not be used to repay commercial banks.

The authors emphasize that the current crisis cannot be blamed only, or even primarily, on external causes — surges in interest rates and petroleum prices, the sharp decline in the prices of commodities other than petroleum, and the worldwide recession of 1980 to 1982. These factors were significant, the authors indicate, but internal causes — policies pursued by the Latin American governments — were even more important. They find that Latin American countries borrowed far more than was needed to offset the effects of external shocks on their balance of payments; working with these extra funds, increased the inflation-adjusted value of their currencies; and, with the exception of Brazil, did not adjust well to deteriorating external conditions. In particular, they write, "overly expansive and concessive internal policies leading to massive capital flight from Mexico, Venezuela, and Argentina account for the larger part of the crisis."

American Industry in the International Marketplace

Can America Compete?
By Robert Z. Lawrence
\$8.95 paper; \$22.95 cloth.



IT IS COMMONLY assumed that the manufacturing sector of the U.S. is declining and that its troubles are due to the increasingly vigorous international competition that it faces. In his new study *Can America Compete?*, Robert Z. Lawrence, a senior fellow in the Economic Studies program at Brookings, challenges both parts of that assumption.

"Contrary to recent fears," Lawrence writes, "America is not deindustrializing." He observes that while there has been a decline in the share of the U.S. economy accounted for by the manufacturing sector, the sector has continued to grow in absolute terms. In the post-1973 worldwide manufacturing slump, the growth in U.S. manufacturing output has been around the mean for all industrial countries. According to Lawrence, from 1973 to 1980 the United States increased its employment in manufacturing more rapidly than any other major industrial country, including Japan. He notes, too, that U.S. productivity levels in manufacturing remain the highest in the world.

As to the impact of international competition, Lawrence finds that between 1973 and 1980, the U.S. trade balance in manufactured goods increased by more than \$18 billion; the postwar decline in America's share of world trade in manufactured goods was arrested; and foreign trade had a positive net effect on both output and jobs in U.S. manufacturing. More recent declines in U.S. exports are attributable in large part, he indicates, to the strength of the dollar and the consequent erosion in U.S. price competitiveness.

Lawrence contends that a better mix of macroeconomic policies offers the best hope of improving the performance of American industry in international trade. He calls for a tightening of fiscal policy and an easing of monetary policy. That combination, he suggests, would weaken the dollar, thereby improving the competitiveness of U.S. firms in world markets—and it would lower real interest rates and stimulate investment, thereby providing a further boost to manufacturing production.

Lawrence opposes what he refers to as selective industrial policies—that is, explicit efforts by government to shift resources among industries and sectors of the economy in order to bring about a particular industrial structure. He argues that "in the absence of a change in macroeconomic policies, selective industrial policies may change the composition of the trade balance and employment but are unlikely to affect their aggregate levels."

He does propose, however, other sorts of changes in structural programs—changes designed to facilitate adjustment and economic performance, but not to produce any predetermined allocation of productive resources. For example, he suggests increased government funding of research and development in areas in which the difficulties of appropriating knowledge discourage private investment; consideration of tax code reforms to eliminate provisions that distort investment decisions across sectors of the economy; and a government loan program to finance the education and training of American workers.

Lawrence closes with an appeal for the removal of "the self-inflicted wounds to U.S. manufacturing that stem from budgetary imbalances." The resulting combination of strengthened domestic demand and a declining foreign exchange rate "could result," he writes, "in extraordinary prosperity for American industry."

The Advanced Study Program at Brookings: Upcoming Events

The Advanced Study Program has two purposes. The first is to provide continuing education to America's leaders — in business, government, and non-profit organizations — about current issues of domestic and foreign policy, in the expectation that a better understanding of these issues will help people in positions of

responsibility to operate more effectively. The second is to stimulate informal discussions among leaders from different sectors of society, in the hope that the exchange of insights can help to produce wiser public policy.

National Issues Forums

National Issues Forums are one-day programs, held at Brookings, on current issues of major importance. They offer participants a chance to explore those issues thoroughly in a give-and-take with top government officials and policy experts. Several forums are scheduled for the fall.

September 26, 1984

Technology, Trade, and U.S. Security: Balancing Conflicting National Objectives

- Impact of export controls on U.S. business interests
- Security risks in technology transfers to the Soviet bloc
- Free trade vs. protectionism: Mixing political and economic objectives
- Is a Department of Trade needed?

October 17, 1984

The Future of U.S.-Latin American Relations

- Problems of indebtedness and the outlook for economic viability
- Internal and external threats to the social and economic stability of the region
- Developing effective policies to protect U.S. vital interests
- The congressional role in foreign policy decision-making

November 28, 1984

Reforming Entitlements: Medicare and Health Costs

- The solvency of the Medicare trust fund
- The federal role in containing rising health care costs
- Congressional proposals to solve the Medicare financing crisis
- Options for major reform in the health care system

The "Investment in Leadership" Series: Understanding Federal Government Operations

Dates:

October 21 to 26, 1984	April 14 to 19, 1985
November 25 to 30, 1984	April 28 to May 3, 1985
December 9 to 14, 1984	May 5 to 10, 1985
February 3 to 8, 1985	May 19 to 24, 1985
March 3 to 8, 1985	June 2 to 7, 1985
March 17 to 22, 1985	June 16 to 21, 1985

Corporate success in the 1980s requires an understanding of the increasingly complex national and international corporate environment. Federal policies — on fiscal and monetary matters, international trade, regulatory issues, and so on — have important impacts on that environment.

Our six-day conferences on the operations of the federal government are designed to give senior executives an intensive overview of Washington policy-making. These informative, off-the-record programs offer three important benefits:

— On-the-spot exposure to "official Washington," including on-site meetings with administration representatives, members of Congress, journalists, and other policy experts.

— Examination — from a variety of perspectives — of key policy problems facing the United States today, with an emphasis on the issues of greatest concern to business.

— A unique opportunity to engage in the federal policy process itself, through informal dialogue with Washington decision-makers.

This program is accredited by the American Council on Education for two semester hours of graduate level credit in the field of business-government relations.

The fee for each National Issues Forum is \$260. The fee for attendance at one of the six-day conferences on federal government operations is \$1,945. Fees include meals and materials, but not lodging. Advance registration is required. To reserve a space, send payment or billing instructions to:

Registrar, Advanced Study Program
The Brookings Institution
1775 Massachusetts Avenue, N.W.
Washington, D.C. 20036

For further information, call (202)797-6269 or 6272.



1775 MASSACHUSETTS AVENUE N.W. WASHINGTON D.C. 20036

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED